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URBAN MORTGAGE LENDING

by Life Insurance Companies

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Urban Mortgage Lending
by Life Insurance Companies

R. J. SAULNIER
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FINANCIAL RESEARCH PROGRAM

STUDIES IN URBAN MORTGAGE FINANCING

National Bureau of Economic Research

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Preface

This study of the urban mortgage lending activities of life insurance companies is one of a group of related investigations which make up the Urban Real Estate Finance Project of the Financial Research Program. Four of these studies are designed to cover certain aspects of the field of urban mortgage lending—"The Impact of Government on Real Estate Finance in the United States," by Miles L. Colean, "Urban Real Estate Markets and Their Financing Needs," by Ernest M. Fisher, "Comparative Markets and Risk Experience of Mortgage Lenders," by J. E. Morton, and "Economic Fluctuations and Urban Real Estate Finance," by Wolfgang Stolper. The others are descriptive of the three principal private mortgage lending agencies, insurance companies, commercial banks, and savings and loan associations, and of the principal public home financing agency, the Home Owners' Loan Corporation.

The data used in the present study were compiled in part from public sources but in the main they have come from special tabulations made available to the National Bureau by life companies. Special mention should also be made of the response to three schedules covering mortgage lending costs in 1945, 1946, and 1947 and detailed records on a 1 percent sample of all nonfarm mortgage loans made by insurance companies since January 1, 1920. The help of the cooperating companies in making these data available to us, involving as it did considerable work on the part of each one, is greatly appreciated and it is pleasant indeed to acknowledge our gratitude for this assistance.

The plan of the book may be stated briefly. It begins with an appraisal of the role of the life insurance company as an investor in the urban mortgage market, giving consideration both to the relative importance of the funds invested by life companies in that market and to the relative importance of the urban mortgage among life company earning assets. A general discussion of the legal framework within which life companies lend on mortgage security is given in Chapter 2. The purpose of the chapter is not to provide a compendium of state laws affecting insurance company mortgage lending, but only to indicate the broad features of the legal framework within which this credit activity takes place, illustrated by references to state laws.

Chapter 3 describes in general terms how different companies are organized for the conduct of their mortgage lending. This description is based on numerous field interviews and on the responses of some seventy companies to schedules circulated to all companies in the United States in 1946 and 1947. Although much could be written on urban mortgage lending techniques, these are dealt with only to the extent necessary to provide a background for the consideration of certain more basic economic questions.

Utilizing data from the loan sample, Chapter 4 describes the types of loans made by life companies since 1920, and the types that made up their portfolios around the end of 1946. These materials are important in showing how mortgage lending terms—e.g., loan-to-value ratios, repayment requirements, and interest rates—have changed since 1920, reflecting changes in general economic conditions and in the real estate market, and in revealing how the availability of home mortgage loan insurance since 1934 has affected home mortgage lending policies.

In Chapter 5 attention is directed to one of the central problems of mortgage lending—the level of operating costs. Based on extensive compilations of primary data, the study indicates the general range of operating costs for individual companies, and considers the problem of the relation of average costs to the size of the loan portfolio being administered. Many questions of interest can be answered directly by information on lending costs, but the principal use which this study makes of the data is to suggest, in conjunction with estimates of mortgage lending losses (Chapter 6), the level of realized yields on urban mortgage loans after taking account of loan administration costs and potential losses.

In conclusion, Chapter 6 presents three measures of mortgage investment experience, all based on the mortgage loan sample. These measures are (*a*) foreclosure rates, which are ratios of the number and amount of loans in a given group that went to foreclosure to the total number and amount of loans in that group, (*b*) gain or loss ratios, which are ratios of the amount gained or lost on the operation of foreclosed properties of different types to the amount originally invested in the loans and to the amount the lender had invested in the property at the time of foreclosure, and (*c*) loss rates, which are the differences, for various classes of loans and properties, between the yield that was *expected* when the loan was made (the original interest rate) and the yield actually *realized* (the expected rate corrected for changes in interest rate and for losses or gains on those loans in the group that eventually went to foreclosure). All three measures are interesting and important as indications of credit quality in mortgage lending.

The planning of the present study was a cooperative undertaking in which a large number of people, both from the National Bureau staff and from outside agencies, participated. The list is too long to permit individual acknowledgment, but I wish to express special appreciation to Ralph A. Young and Donald S. Thompson for their contributions to the solution of the many technical problems encountered in preparing for the initial compilations of data. Also, grateful acknowledgment is made to J. E. Morton for technical assistance in connection with the loan experience study, to Mrs. Doris P. Warner who has served as my research assistant throughout much of the study's preparation, to Miss Katherine E. Krenning, Miss Ruth Wenglinsky, and Miss Catherine P. Martin who have, respectively, edited the manuscript, prepared the charts, and supervised tabulations, and to others of my associates at the National Bureau for many helpful suggestions.

This study, and all others being conducted under the Urban Real Estate Finance Project, was completed under grants of funds from the Association of Reserve City Bankers, the Life Insurance Investment Research Committee, acting for the American Life Convention and the Life Insurance Association of America, and the Rockefeller Foundation. The National Bureau is deeply appreciative of the assistance of these groups.

R. J. Saulnier
Director, Financial Research Program

December 1949

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CHAPTER 1

Scope of Urban Mortgage Lending by Life Insurance Companies

FOR more than a century life insurance companies have been prominent in the urban real estate market. Through these companies the savings of increasing thousands of individuals have been channeled into the financing of home ownership and into the construction and ownership of commercial and industrial structures. The present study is devoted exclusively to the urban mortgage lending activities of life insurance companies, being one of a series dealing with the major financial institutions that lend on urban real estate security.[1] A general outline of the role of the insurance company as an investor in the real estate market is given in the first chapter, but before taking up the subject matter certain terms used repeatedly in the text are defined.

First, the term "urban real estate mortgages" is used throughout the study to include all mortgages except those classified as "farm mortgages" in the reports of life companies to their state supervisory authorities. The mortgages might correctly be described as "nonfarm" or "city" mortgages but neither of these terms, while convenient, has wide usage. Second, the terms "life companies" or "insurance companies" are substituted, for the sake of brevity, for "legal reserve life insurance companies." And finally, life company holdings of owned real estate must be included in the analysis, since the acquisition of property through foreclosure or voluntary deed is an incident of mortgage financing. Wherever possible "owned real estate" will be used to signify all urban properties owned by life companies except those used for the company's own operations and those held for investment. Other terms used in a technical sense, but less frequently than the above are defined as they appear in the text.

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[1] Other National Bureau studies will deal with the urban mortgage lending activities of commercial banks and savings and loan associations.

IMPORTANCE OF INSURANCE COMPANIES IN THE URBAN MORTGAGE MARKET

Although insurance companies have become increasingly important as investors in residential, commercial, and industrial properties, their principal function in the real estate market is that of mortgagee. It can be seen in Table 1 that they are a significant, if not a very large, factor in the mortgage market as a whole. Their urban and farm mortgage holdings stood at $7.6 billion, which was 16.2 percent of all mortgage debt outstanding at the end of 1929 and at $10.8 billion, which represented 18.6 percent of the amount outstanding at the

TABLE 1 – TOTAL MORTGAGE DEBT OUTSTANDING AND AMOUNT HELD BY INSURANCE COMPANIES, 1929 AND 1933-48 *

(dollar figures in billions)

End of Year	*Mortgage Debt Outstanding* Total	Insurance Company Holdings	*Percent of Total Held by Insurance Companies*
1929	$47.0	$7.6	16.2%
1933	39.5	6.7	16.9
1934	38.4	5.9	15.4
1935	37.3	5.4	14.5
1936	36.6	5.2	14.1
1937	36.4	5.2	14.3
1938	36.5	5.4	14.8
1939	36.9	5.7	15.3
1940	37.7	6.0	15.9
1941	38.8	6.4	16.6
1942	37.9	6.8	17.9
1943	36.4	6.7	18.5
1944	35.7	6.8	19.0
1945	36.4	6.5	17.9
1946	42.8	7.1	16.7
1947	50.1	8.5	17.0
1948	57.7	10.8	18.6

* Estimates of total mortgage debt are those of the Department of Commerce, *Survey of Current Business*, October 1949; insurance company holdings are compiled by the Operating Analysis Division, Federal Home Loan Bank Board. Data on total mortgage debt include mortgages on both farm and nonfarm properties but exclude real estate mortgage bonds and mortgages held by nonfinancial corporations on corporate-owned multifamily and commercial properties.

end of 1948. However, their importance is greatest, as shown in Table 2, as lenders on commercial properties. Estimates indicate that they held about 40 percent of the total amount of such mortgages outstanding at the end of 1945. In contrast they held 14 percent of all urban residential mortgages and 16 percent of all farm mortgages.

The greater importance of life companies in the financing of large city properties is shown by the breakdown of all residential mortgage outstandings into those secured by one- to four-family dwellings and by multifamily properties. From 1938 to 1945, life companies held from 8 to 13 percent of all mortgages on one- to four-family properties and from 14 to 23 percent of the mortgage debt on larger residential structures. More detailed data are not available, but it is known that the financing of specialized commercial and industrial properties, such as hotels, office and loft buildings, etc., is done largely through life insurance companies. Savings banks and trust companies in the chief centers of population also finance properties of this type but these lenders are secondary to insurance companies.

IMPORTANCE OF URBAN MORTGAGE LOANS AS INSURANCE COMPANY ASSETS

Not only do insurance companies play an important part in urban real estate financing, but their participation is widespread; urban mortgage loans are found, without exception, among the assets of all insurance companies with resources of $100 million and over (Table 3). Only among small companies are there cases where no mortgage investment exists, and the number of these is very small. A count of the 349 legal reserve life insurance companies listed in the *1946 Spectator Insurance Year Book* and in *Best's Life Insurance Reports* shows that all but twenty-five companies held some mortgages at the end of 1945. The few companies that reported no mortgage loans at all—most of them incorporated in the last ten years in the South and Middle West—had total assets of less than $100 million each. In some cases the absence of mortgage holdings can be attributed to the type of insurance written, such as accident, health, or hospitalization insurance, or life insurance on borrowers from agencies making small instalment loans to individuals.

Since some companies report to *Spectator* and *Best's* without

TABLE 2 — TOTAL MORTGAGE DEBT OUTSTANDING AND PERCENT HELD BY INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, 1938-48 [a]

(dollar figures in billions)

END OF YEAR	MORTGAGE DEBT OUTSTANDING					PERCENT HELD BY INSURANCE COMPANIES				
	NONFARM				FARM	NONFARM				FARM
	1-4 Family Dwellings	*Multifamily Residential and Commercial*				*1-4 Family Dwellings*	*Multifamily Residential and Commercial*			
		Total	Multi-family	Commercial			Total	Multi-family	Commercial	
1938	$17.1	$12.7	$6.3	$5.8	$6.8	7.7%	25.2%	14.4%	39.4%	13.1%
1939	17.6	12.7	6.4	5.7	6.6	8.5	25.9	16.7	39.0	13.4
1940	18.4	12.9	6.5	5.7	6.5	9.6	26.1	17.5	39.1	13.7
1941	19.4	13.0	6.5	5.8	6.4	10.2	27.2	19.3	39.3	14.2
1942	19.2	12.7	6.4	5.6	6.0	11.7	28.5	21.3	40.4	15.0
1943	18.8	12.2	6.2	5.2	5.4	12.8	28.6	22.9	39.6	15.6
1944	18.8	12.0	6.0	5.2	4.9	13.1	29.2	22.5	41.3	16.2
1945	19.2	12.5	6.0	5.2	4.7	11.8	28.0	22.9	40.9	16.4
1946	23.6	14.4	b	b	4.8	10.9	26.1	b	b	16.6
1947	28.6	16.7	b	b	4.9	12.1	25.2	b	b	17.7
1948	33.4	19.3	b	b	5.1	14.8	25.2	b	b	19.2

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[a] Estimates of total mortgage debt are those of the Department of Commerce, *Survey of Current Business*, September 1946 and October 1949. The data on debt outstanding on one- to four-family dwellings and on *total* multifamily residential and commercial properties are revised figures shown in the *Survey* for October 1949, while the *breakdowns* of debt outstanding on multifamily residences and on commercial properties are figures shown in the *Survey* for September 1946. Consequently, the sum of the components of multifamily residential debt and commercial debt does not equal the total shown. Figures exclude real estate mortgage bonds and mortgages held by nonfinancial corporations on corporate-owned multifamily and commercial properties. Percent held by insurance companies is based on amounts compiled by the Operating Analysis Division, Federal Home Loan Bank Board.

[b] Not available.

giving separate totals for their urban and farm mortgage holdings, Table 3 under-reports the number of companies that hold urban mortgage loans. However, there are not many such cases and the error is confined to companies with admitted assets of under $100 million. The outstanding facts are that in 1945 over 80 percent of all companies held some urban mortgages, and that over 90 percent of all companies with admitted assets of $1 million and over were urban mortgage lenders.

Comparable counts of the 342 and 313 life companies for which reports are available for the years 1931 and 1936, respectively, reveal that in the aforementioned years about 5 percent of all companies reported no urban mortgage investments at all and that all of these were companies with assets of under $100 million. In these years, as well as in 1945, insurance companies participated much more widely in urban mortgage financing than in farm financing.

In compiling data for Table 3, companies were included among those making urban mortgage loans even though the amount of their holdings was very small. Therefore, in order to show differences in the relative importance of mortgage investments among companies of different sizes, the companies for which reports are available for 1931, 1936, and 1945 are classified according to the percentage of their total admitted assets invested in urban mortgage loans. It will be observed that the smaller companies include those in which urban mortgage loans are most, as well as those in which they are least, important. Of all companies reporting some urban mortgages in 1945, about 35 percent had less than 10 percent of their assets in this form, and another 46 percent had between 10 and 30 percent. Of those companies with 30 percent or more of their assets in this type of investment in 1945 not one, however, was in the class of large companies with total assets of $500 million and over. The heaviest urban mortgage loan investments are found among the companies with assets of less than $500 million, of which thirteen had between 50 and 70 percent of their assets in urban mortgages. This general pattern was characteristic also of the years 1931 and 1936.

When consideration is given to all companies, including those holding no urban mortgages as well as those holding a large proportion of their assets in urban mortgages, it appears that there is no consistent pattern of relationship between company size and the relative importance of mortgage investments. At the end of 1945, com-

TABLE 3 — NUMBER OF INSURANCE COMPANIES CLASSIFIED BY AMOUNT OF ADMITTED ASSETS AND BY PERCENTAGE OF ASSETS INVESTED IN URBAN MORTGAGE LOANS, 1931, 1936, AND 1945 [a]

Total Admitted Assets (in millions)	*Total Number of Companies* [b]	*Companies Reporting Urban Mortgage Loans* [c]	*Companies Reporting Specified Percentages of Total Assets Invested in Urban Mortgage Loans*							*Urban Mtgs. as % Total Assets for All Insurance Cos.* [c]
			0.1-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60% & Over	
					December 31, 1945					
Less than $1.0	68	37	21	7	3	1	2	2	1	9.5%
1.0 – 99.9	241	225	79	55	48	19	15	8	1	20.2
100.0 – 499.9	23	23	2	9	6	4	1	1	0	22.9
500.0 – 999.9	5	5	1	2	2	0	0	0	0	17.7
1,000 and over	12	12	5	7	0	0	0	0	0	10.3
Total	349	302	108	80	59	24	18	11	2	13.1%
					December 31, 1936					
Less than $1.0	92	39	16	11	7	3	1	0	1	13.1%
1.0 – 99.9	192	154	42	42	40	24	6	0	0	18.4
100.0 – 499.9	17	17	5	7	3	1	1	0	0	16.5
500.0 – 999.9	6	6	2	3	1	0	0	0	0	10.9
1,000 and over	6	6	1	4	1	0	0	0	0	18.0
Total	313	222	66	67	52	28	8	0	1	16.7%
					December 31, 1931					
Less than $1.0	112	66	19	13	10	6	6	5	7	24.0%
1.0 – 99.9	205	186	40	42	35	31	25	10	3	28.2
100.0 – 499.9	16	16	3	4	2	3	3	0	1	28.7
500.0 – 999.9	4	4	1	3	0	0	0	0	0	15.3
1,000 and over	5	5	0	0	3	2	0	0	0	32.3
Total	342	277	63	62	50	42	34	15	11	28.6%

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[a] Data are from *The Spectator Insurance Year Book* (1932, 1937, and 1946) and from *Best's Life Insurance Reports* (1932, 1937, and 1946).

[b] Excludes a few small companies for which no data were available. [c] Excludes twelve companies in 1945, seventy-eight in 1936, and thirty-nine in 1931, all with assets of less than $100 million, that reported some mortgage holdings but gave no breakdown as between urban and farm.

panies with assets of less than $1 million and those with assets of $1 billion and over invested about 10 percent of their assets in urban mortgages, while those falling between these extremes had roughly 20 percent of their assets invested in urban mortgages (Table 3). In earlier years the differences were less marked.

Importance of Urban Real Estate as an Insurance Company Asset

The relative importance of the urban real estate holdings of insurance companies is more difficult to measure than the relative importance of their holdings of mortgage loans. Only a few companies break down their reports to *Best's* and *Spectator* into the principal categories of property, namely: (1) property acquired through foreclosure, (2) property bought for investment purposes, and (3) owned property used for the conduct of company business. However, taking the over-all figure on owned real estate as a basis, it was found that of the 313 companies reported on in either *Spectator* or *Best's* as of December 31, 1936, 63 held no urban real estate, 98 reported holdings, but without any breakdown between farm and urban properties, and 152 reported separately on holdings of urban real estate (Table 4). Of the group of 152 companies, 82 percent had less than 10 percent, and nearly 50 percent had less than 5 percent, of their total admitted assets in this form. The companies having the heaviest relative commitments in owned real estate as of 1936 were in the smallest asset-size classes.

Considering all companies for which a breakdown of data is available, it appears that the average proportion of total assets invested in urban real estate is about the same for all sizes of companies, except that those in the $1.0 to $99.9 million asset-size class had a somewhat higher average investment in real estate than those of larger size (Table 4).

Two marked changes in the real estate holdings of insurance companies occurred after 1936. First, properties acquired through foreclosure were considerably reduced through sale and, second, many companies initiated programs of purchasing properties for investment purposes. Data not previously available on the amount of property held for investment purposes were assembled through a schedule mailed to all life insurance companies by the National Bureau of Economic Research in the summer of 1946.

TABLE 4 — Number of Insurance Companies Classified by Amount of Admitted Assets and by Percentage of Assets Invested in Urban Real Estate, December 31, 1936[a]

Total Admitted Assets (in millions)	*Total Number of Companies*[b]	*Companies Reporting Owned Urban Real Estate*[c]	*Companies Reporting Specified Percentages of Total Assets Invested in Urban Real Estate*					*Urban Real Estate as % of Total Assets for All Insurance Cos.*[c]
			0.1-5%	5-10%	10-20%	20-30%	30-40%	
Less than $1.0	92	13	6	4	2	0	1	3.1%
1.0 – 99.9	192	111	51	38	15	7	0	6.1
100.0 – 499.9	17	16	9	5	2	0	0	4.7
500.0 – 999.9	6	6	4	2	0	0	0	3.6
1,000 and over	6	6	4	2	0	0	0	4.7
Total	313	152	74	51	19	7	1	4.6%

[a] Data are from *The Spectator Insurance Year Book, 1937* and from *Best's Life Insurance Reports, 1937*.

[b] Excludes a few small companies for which no data were available.

[c] Excludes thirty-seven companies in the less than $1.0 million, sixty in the $1.0-99.9 million, and one in the $100.0-499.9 million size classes that reported real estate owned, but gave no breakdown as between urban and farm properties.

The schedule called for the amount of urban real estate held for investment purposes, whether acquired through foreclosure or purchase, as of December 31, 1945, excluding home office and other property used for the accommodation of the business, and property acquired through foreclosure, exchange, etc., and being held for sale rather than for investment income. Admittedly, the distinction between real estate acquired through foreclosure and held for investment, and that similarly acquired but currently held for sale, is not easy to make, existing, perhaps, only in the partly-formulated intentions of investment officers. Nonetheless, the findings of the schedule are interesting as general measures with which future compilations can be compared.

Usable reports were received from fifty-nine companies, of which forty-five reported holding no urban property for investment purposes. Of the fourteen companies reporting such holdings, most showed amounts of less than 1 percent of their total admitted assets, and one reported such properties equal to 2.38 percent of all admitted assets. In general, most property held for investment was acquired through purchase.

Changes in the Relative Position of Urban Mortgage Loans and Owned Real Estate Among Insurance Company Assets, 1860-1946

While mortgage loans are currently an important investment asset of insurance companies, they are far less important today than they were in the nineteenth century. As shown in Table 5, mortgages (both urban and farm) accounted for nearly 60 percent of insurance company assets in 1860 and, along with premium notes, composed virtually the entire investment portfolio. As early as 1851 two of the largest companies, Connecticut Mutual and Mutual Benefit, held 56 percent of their assets in premium notes and one-half to two-thirds of the remainder in mortgage loans.[2] In a sense, however, these figures underestimate the importance of mortgages as investments, since the premium notes were acquired directly from policyholders in payment of premiums and the mortgages were foremost among those assets actually chosen for the investment of funds.

Little change occurred in this general pattern until 1880, by

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[2] Lester W. Zartman, *The Investments of Life Insurance Companies* (New York, 1906) pp. 10-11.

TABLE 5 – PERCENTAGE DISTRIBUTION OF TOTAL ASSETS OF THE 29 LARGEST INSURANCE COMPANIES, 1860-1946 [a]

Assets	*1860*	*1870*	*1880*	*1890*	*1900*	*1910*	*1920*	*1930*	*1940*	*1946*
Cash	2.4%	4.3%	4.5%	4.2%	4.3%	1.4%	1.2%	.6%	3.2%	1.3%
Premium notes	20.5	21.5	5.2	1.2	5.0	.7	.5	.5	.4	.1
Policy loans	..	.1	.1	1.6		13.4	11.6	13.8	9.2	3.6
Mortgage loans	59.2	44.4	38.6	41.0	28.7	30.7	31.2	40.2	18.4	13.2
Real estate	2.7	3.5	12.4	10.4	9.0	3.9	2.0	2.2	6.3	1.4
U. S. bonds	3.1	9.1	8.7	.9	.4	b	11.4	1.8	19.6	46.3
Municipal bonds [c]	2.8	7.0	14.6	7.1	5.1	4.5	5.7	4.9	7.1	1.6
Foreign public bonds	..	..	..	1.2	3.1	2.4	2.6	.8	1.0	2.2
Private corporate bonds	.9	1.4	4.7	22.2	32.3	36.6	29.2	27.7	29.6	25.9
Stocks [d]	2.3	1.5	1.5	4.0	5.6	3.6	1.0	2.5	1.8	2.4
Collateral loans	1.6	1.2	5.7	4.6	3.7	.4	.4	.1	b	b
Miscellaneous [e]	4.5	6.5	2.5	2.6	2.8	2.3	3.2	5.0	3.4	2.0
Total Assets	100.0%	100.5%	98.5%	101.0%	100.0%	99.9%	100.0%	100.1%	100.0%	100.0%

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[a] Data are for year ends. Companies included from 1900 to 1946 are the twenty-nine companies that were the largest as of the given year; only sixteen companies could be carried back to 1860. Data for 1900 to 1946 are from *The Spectator Insurance Year Book* and for earlier years from Lester W. Zartman, *The Investments of Life Insurance Companies* (New York, 1906) p. 14. The failure of columns to add to 100 percent is due to rounding, except for 1870, 1880 and 1890 when some other source of error must be responsible. However, it is impossible now to retrace Zartman's process of compilation, and in any case the error is small.

[b] Less than .05 percent.

[c] Includes state, county, and municipal bonds.

[d] Includes equity securities of insurance companies, banks, trust companies, railroads, other public utilities, and miscellaneous enterprises.

[e] Includes deferred and outstanding premiums, accrued interest, and assets not otherwise classified.

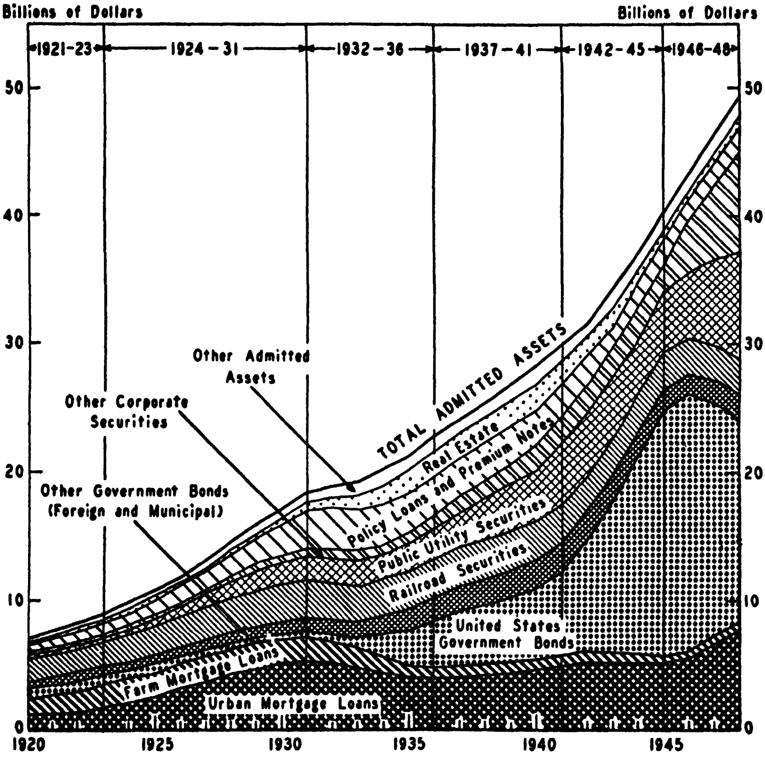
which time state, county, and municipal bonds, and owned real estate had grown in importance and premium notes had declined to about one-fourth of their earlier relative magnitude. Data showing the situation at decennial intervals clearly reveal a broadened investment policy from 1890 to 1920. Premium notes ceased by 1890 to be important; by 1910 policy loans had become a relatively significant item; mortgage loans continued to occupy a prominent place among insurance company assets, but had declined by 1900 to a much lower relative position than they had occupied in 1860; by 1900 private corporate bonds—primarily railroad bonds—more than matched mortgage loans in relative importance; obligations of the United States government, which had been negligible except in the two decades following the Civil War, were 11.4 percent of all admitted assets in 1920. In general, by that date life insurance companies had changed from agencies engaged primarily in local investment activities to national investment institutions, with portfolios of assets reflecting the enormous changes that had taken place in the demand for capital by the various sectors of the American economy.

Broad changes in insurance company investment holdings after 1920 are also shown in Table 5, which reveals the gradual recedence of mortgage loans, in relation to total assets, and the rapid rise, after 1930, of government bonds to the leading position among all assets. Shifts after 1920 in the relative importance of the several principal components of insurance company investments can be traced in greater detail in Charts 1 and 2, which are based on data published by the Life Insurance Association of America covering forty-nine life companies that hold 90 percent of all assets of the industry. In order to facilitate the interpretation of these charts of insurance company investment history since 1920 the whole period has been broken into a series of subperiods, on the basis of movements in the urban mortgage loan account (Chart 2).

In the first of these subperiods, 1921-23, there was very little change in the structure of insurance company assets. Almost all components, including urban and farm mortgages, increased at approximately the same rate.

The next broad investment subperiod, extending from 1924 through 1931, was, in general, a period of rapidly expanding private investment. During these years there were rapid increases in the amounts of urban mortgage debt and owned real estate held by life

CHART 1 – TOTAL ADMITTED ASSETS OF 49 INSURANCE COMPANIES CLASSIFIED BY TYPE OF ASSET, AT YEAR ENDS, 1920-48

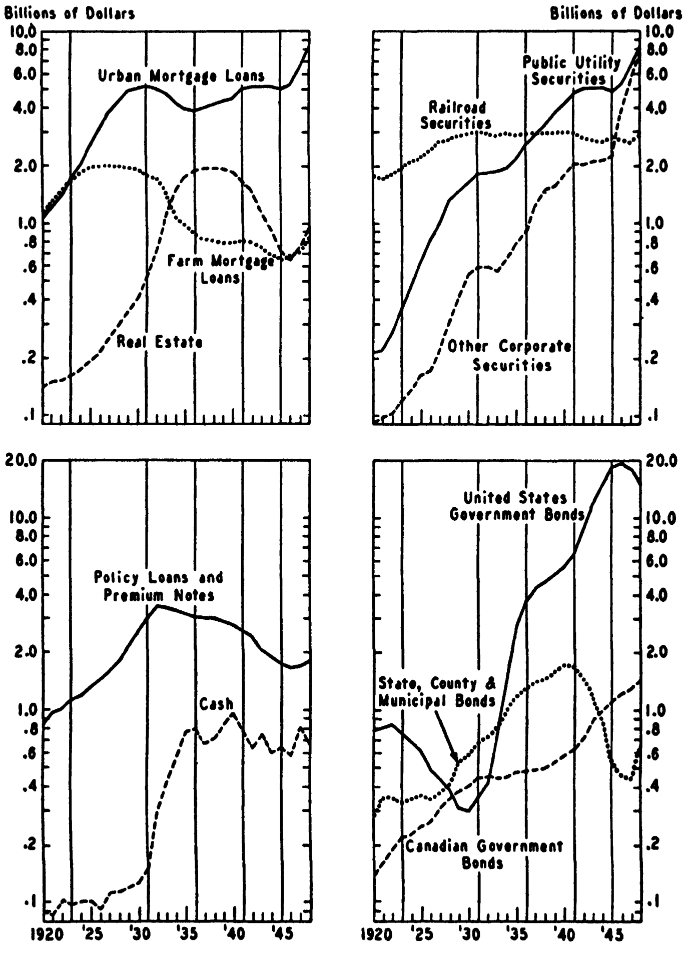


Source: Life Insurance Association of America.

Life insurance company assets increased more than sevenfold from 1920 to 1948, with mortgages on urban properties sharing more than proportionately to 1930, and less than proportionately thereafter.

companies. Farm mortgages increased only moderately and then fell off so that they were about the same at the end as at the beginning of the period. These were also years of regular increase in life insurance company holdings of other types of private debt, particularly public utility and other nonrailroad securities, and of state, county, and municipal bonds; holdings of federal government obligations, on the other hand, declined sharply.

CHART 2 — SELECTED ASSETS OF 49 INSURANCE COMPANIES, AT YEAR ENDS, 1920-48



Source: Life Insurance Association of America.

Using broad changes in urban mortgage holdings as a basis, the years 1920-48 may be divided into several periods during which the investment activities of life insurance companies followed markedly different patterns.

Again taking changes in urban mortgage holdings as the criterion, the years 1932 through 1936 are clearly set apart as a separate period of investment history. Urban mortgage loans fell in absolute amount and in relation to total assets; owned real estate increased rapidly as a result of foreclosures; the decline of farm mortgage loans, which had begun in 1927, continued until by 1938 they were only one-fifth as great, relative to total assets, as they had been in 1920. Policy loans reached a peak in the depression years 1932-33 and then began to fall off; holdings of private corporate securities held about stable in the first half of the period but nonrailroad securities began to increase in 1934 and continued to rise sharply to the end of the period; federal government obligations continued to rise in amount, their increase now a dominant factor in the entire investment picture for life companies; and state, county, and municipal bonds continued the increase which had begun in 1928.

The years 1937 through 1941 may be taken as the next distinct subperiod of life company investment history, once more indicated by the movement of urban mortgage loan outstandings. Over this period urban mortgage loans rose moderately and steadily while farm mortgage holdings held nearly constant and the owned real estate account tended to fall, particularly after 1938. The increase in holdings of private corporate securities continued at about the same rate as in the preceding period, except for the amount of railroad bonds, which remained unchanged. Policy loans and premium notes fell, reflecting improved economic conditions, and the sharp rise in federal government obligations continued. The holdings by life companies of nonfederal public debt reached a peak in 1940 and fell thereafter.

In the last complete subperiod, 1942 through 1945, urban mortgage portfolios held about stable, while farm mortgages and owned real estate continued to decline. Other types of assets followed different courses that reflected broad developments in the securities markets during the war period. Holdings of private corporate securities remained about constant, federal government securities rose sharply, and holdings of state, county, and municipal bonds fell.

Beginning in 1946, changes took place in insurance company holdings of selected assets that reflected broad postwar financial developments, namely, the expansion of almost all types of private debt and the reduction of federal obligations. This period of rapidly expanding private investment was still in progress in 1948, the last year for which data on the composition of insurance company assets are available.

This record of investment activity should be borne in mind when the mortgage loan experience of life insurance companies is reviewed in Chapter 6. It is significant that mortgage holdings increased most rapidly during the real estate expansion of the twenties and that a comparable rate of increase was not achieved again until after World War II, when the real estate market once more became intensely active. It is not strange, of course, that insurance company holdings of mortgages have increased the most during periods of high construction activity; the important point, as will be shown in Chapter 6, is that these are precisely the periods during which loans are originated which, on the historical record, have had the highest frequency of default and foreclosure.

Urban Mortgage Loans as a Source of Investment Income for Insurance Companies

While the decline that took place in the thirties and forties in the relative importance of farm and city mortgages is an important factor in understanding the changing investment policies of life companies, a complete account requires that these urban mortgages be analyzed from the standpoint of shifts since 1900 in the importance of mortgage income relative to other investment income. Because mortgage interest rates have declined less rapidly than the rates on most other classes of insurance company investments, the mortgage loan account has fallen less in relative importance when measured in terms of its contribution to total investment income than when measured as a percentage of total assets. A comparative analysis of the relative importance of urban mortgages as measured by these two methods can be made on the basis of the annual reports of the New York State Insurance Department; these reports cover all companies doing business in that state and give gross mortgage income and total investment income for individual companies.[3]

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[3] In these reports, mortgage income includes all interest and other income received during the year on farm and urban loans, and excludes interest due and accrued. Total investment income includes interest and dividend income on bonds, stocks, premium notes, collateral loans, policy loans and other liens, and gross income from company-owned property as well as all mortgage loan income.

The much greater importance of mortgage income in 1900 than in more recent years is clearly evident in Table 6, which shows that companies received 37 percent of their investment income from mortgage loans in 1900 as compared with only 19 percent from this source in 1944. In 1900, fourteen of the thirty-nine companies doing business in New York State earned 50 percent or more of their investment income from their mortgage loan accounts, while in 1944 only three of the fifty-seven companies then reporting were in this category.

TABLE 6 — NUMBER OF INSURANCE COMPANIES DOING BUSINESS IN NEW YORK STATE, CLASSIFIED BY PERCENT OF INVESTMENT INCOME DERIVED FROM MORTGAGE LOANS AND BY PERCENT OF ASSETS INVESTED IN MORTGAGE LOANS, 1900, 1920, AND 1944 *

	Number of Companies		
	1900	1920	1944
Percent of investment income derived from mortgage loans			
No income from mortgages	1	3	5
0.1 - 10%	1	1	5
10 - 20	5	5	22
20 - 30	4	6	9
30 - 40	8	5	9
40 - 50	6	9	4
50 and over	14	8	3
Total	39	37	57
Percent of assets invested in mortgage loans			
No investment in mortgages	1	3	5
0.1 - 10%	3	1	12
10 - 20	7	8	20
20 - 30	8	3	10
30 - 40	7	9	6
40 - 50	5	7	3
50 and over	8	6	1
Total	39	37	57
Mortgage loan income as percent of investment income	*37.1%*	*33.7%*	*19.3%*
Mortgage investment as percent of total assets	*28.2%*	*31.1%*	*14.3%*

* Investment income includes rent and interest and dividend income on mortgage loans, bonds, stocks, and premium notes. Figures are from *New York Insurance Reports.*

More important, however, is the fact that the relatively high rates of gross income earned on mortgage loans means that their importance as generators of income was far greater than is suggested by their relative position among all assets. Thus, in 1900, only twenty of the thirty-nine New York State companies had 30 percent or more of their assets in mortgages while twenty-eight of them were receiving this proportion or more of their investment income from mortgages. In 1944, only ten of the fifty-seven companies doing business in New York State had 30 percent or more of their assets in mortgages but sixteen of them earned this proportion or more of their total investment income from the mortgage loan account.

Fluctuation in Urban Mortgage Lending Activity of Life Insurance Companies

There are several measures of lending activity that are pertinent to the description of insurance company mortgage financing. These are: (1) outstanding loan balances, (2) net changes from one date to another in outstanding balances, which may be called "net credit change," and (3) separate amounts of new credits extended and of loan repayments received.[4] However, not all of these data are available over an extended period, even for the larger companies. Such materials as are available are presented below.

Chart 3 gives nonfarm mortgage loans outstanding, additions to loan account, deductions from loan account, and net credit change for six large companies for 1919-48, and net credit change in the nonfarm mortgage account of forty-nine large life companies for the same period. As will be seen, net credit change for the forty-nine large companies rose to a peak in 1926, held at a somewhat lower level from 1927 to 1929, and then fell off sharply, reaching a low in

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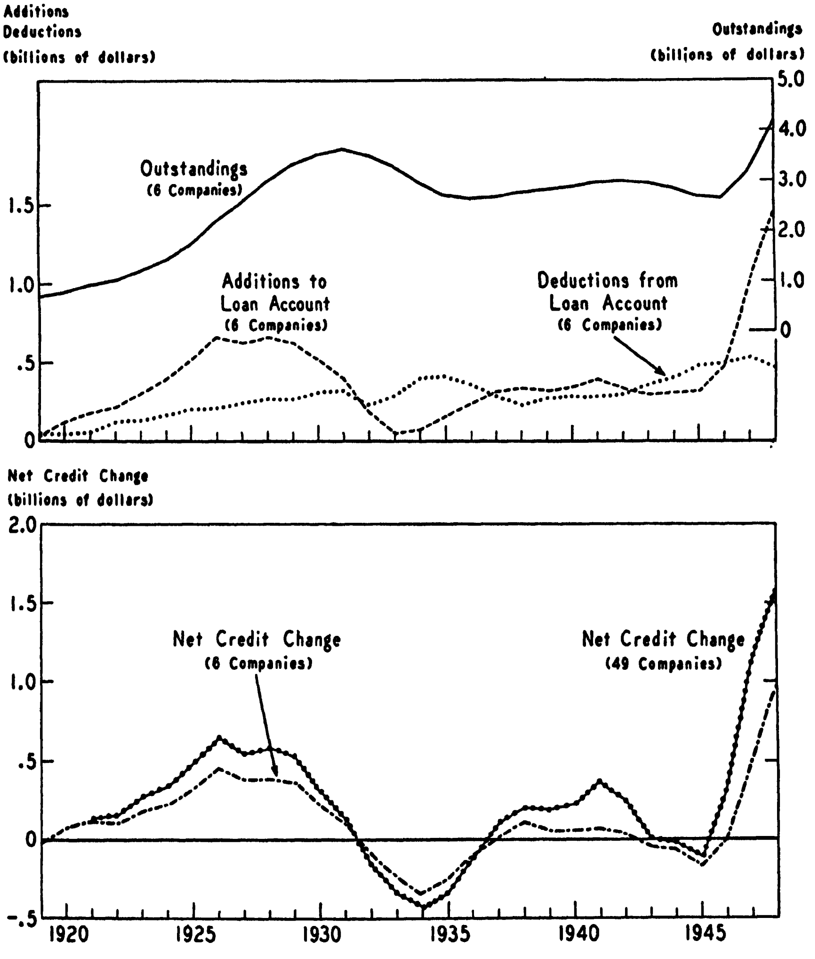
[4] See Gottfried Haberler, *Consumer Instalment Credit and Economic Fluctuations* (National Bureau of Economic Research, Financial Research Program, 1942) Chapter 3, for measures of credit activity and their significance for studies of the cyclical impact of lending. In analyses of mortgage lending it is customary to combine all changes that add to outstandings into "additions to loan account" and all changes that reduce outstandings into "deductions from loan account." The former are usually subdivided into "new loans made" and "additional advances on existing loans" and the latter into "payments on existing balances" and "transfers to real estate."

Certain additional materials would be required for a complete account of mortgage investment activity, namely, (1) a record of loan balances refinanced (which would enter into additions to, as well as deductions from, loan account), (2) a division of repayments into partial and full repayments, and (3) data showing the changes in loan balances traceable to write-downs of book value.

CHART 3 — NET CREDIT CHANGE FOR 49 INSURANCE COMPANIES AND NET CREDIT CHANGE IN, ADDITIONS TO, AND DEDUCTIONS FROM, URBAN MORTGAGE LOAN ACCOUNT FOR 6 LARGE INSURANCE COMPANIES, ANNUALLY, 1919-48



Source: Data on 49 companies compiled by Life Insurance Association of America; data on 6 companies compiled by National Bureau of Economic Research.

Urban mortgage lending activity by life insurance companies has fluctuated widely since 1920, reaching a peak level in 1926-29 and rising rapidly in 1946-48 to the highest levels of the period.

1934 and rising to another peak in 1941. The same general behavior is reflected in the experience of the six large companies. However, the data on "additions to loan account" permit a closer examination of the tempo of lending activity during these years. Chart 3 shows that credit extensions remained at a high level from 1926 through 1929 and then fell rapidly to 1933. In 1935 a fairly rapid increase in lending activity began, and the 1924 level had been reattained by 1938. From 1938 to 1945 the amount of urban mortgage credit granted by these companies changed little, but a sharp increase followed in 1946-48.

The high level of insurance company mortgage lending activity that extended from 1926 through 1929 and from 1946 to 1948 coincided with high levels of construction activity. However, the interesting feature of the insurance company series is that credit extensions continued through 1929, even though the construction of single family dwellings declined after 1925.[5] This was partly due to the continuance of apartment construction to a peak in 1927 [6] and to the rise of private nonresidential building to unusually high levels in 1928 and 1929.[7] Since insurance companies are heavy lenders in both of these fields, they did not experience a slackening in their rate of new lending activity until 1930.

While lending on single family dwellings was reduced after 1926, continuation of a demand for funds in this type of financing helped considerably to maintain the new loan volume of insurance companies after the construction boom had ended. A 1 percent sample of all loans made by twenty-four leading life insurance companies, taken in connection with the present study, shows that the decline in new loan volume after 1928 was due mainly to a slowing down of credit extensions on large apartment houses and nonresidential buildings. Loans on single family structures continued to be made until 1931, with only a slight downward drift from the peak level of 1926. The wide swings after 1920 in insurance company mortgage lending activity were due, in other words, mainly to economic conditions outside the market for single family homes.

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[5] David L. Wickens, *Residential Real Estate* (National Bureau of Economic Research, 1941) Table El, p. 296.

[6] *Ibid.*

[7] Department of Commerce estimates of construction activity; see *Economic Almanac, 1946-47* (National Industrial Conference Board, 1946) p. 235.

CHAPTER 2

The Legal Framework of Life Insurance Company Mortgage Lending

As investors in the real estate market, whether as mortgagees or as owners of property, insurance companies are subject to the whole body of real estate law and regulation. In addition, their real estate financing activities are affected by certain sections of the insurance laws of the states in which they are organized and to a lesser degree by the insurance laws of other states in which they do business. Since the real estate financing activities of life companies are significantly affected by this legal framework, a description of the relevant statutory and administrative laws is essential to the present study. But in view of the fact that a separate monograph in this series deals with general real estate law and regulation [1] this chapter will be restricted to a discussion of those sections of state insurance laws that have a direct bearing on real estate finance. Examples of statutory limitations on mortgage financing and real estate investment are drawn from the laws of different states in order to show the range of variation; other examples are used to illustrate such common features as can be found in state legislation.

LIMITATIONS ON MORTGAGE INVESTMENTS

State statutes fall into a roughly standard pattern as regards their statement of conditions on which life insurance companies may invest the reserves of their policyholders in mortgages. The general formulation of the laws is to the effect that a domestic life insurance company (i.e., a company incorporated or chartered in the state in question) may invest in bonds or notes secured by mortgages or deeds of trust on unencumbered real estate, but this broad grant of power is ordinarily accompanied by certain limiting provisions. First, in-

[1] Miles L. Colean, *The Impact of Government on Real Estate Finance in the United States* (National Bureau of Economic Research, Financial Research Program, ms. 1949).

surance companies are generally restricted to loans on "improved" real estate, a device obviously intended to guard against an unwanted variety of "land" speculation. However, the term "improved" real estate requires definition. Most states, as illustrated by the Illinois law, include farm land used for tillage or pasture among improved properties.[2] Michigan law stipulates that the property should be improved or income-producing, or both, and permits loans on vacant plots provided only that 60 percent or more of the plot is under contract of sale and that the contract is pledged as additional collateral.[3] Florida law is more liberal, making no mention of mortgage lending restrictions beyond specifying that the $100,000 minimum required capital must be invested in government securities or in mortgage loans on unencumbered, improved property the market value of which exceeds the amount loaned by not less than 50 percent.[4]

Second, in stating the requirement that mortgage security should be unencumbered (i.e., that the mortgage must be a first lien on the property) the statutes ordinarily cite in detail certain permissible types of encumbrances, such as taxes or assessments—if not due and unpaid—mineral or timber rights, rights of way, rights in walls, public utility easements, building restrictions, etc. Nor do they ordinarily include leases among encumbrances if rents and profits from them are reserved to the owner. There must, of course, be no right of re-entry or forfeiture by which the mortgagee's lien can be cut off, subordinated, or otherwise disturbed.[5]

Third, and of greater interest from the viewpoint of this study, are those statutory provisions, varying widely among the states, that place limits on the amount of funds that life insurance companies may invest in mortgages. The Illinois statute, which limits the investment in any one mortgage to an amount not exceeding $10,000, or 2 percent of the company's admitted assets, whichever is greater, may be cited as an example of this type of limitation.[6] The New York law differs somewhat and involves an additional principle: mortgages on single properties are limited to $25,000, or 2 percent of the insurer's total admitted assets, whichever is greater, and in the aggregate they are limited to not more than 40 percent of the company's total admitted assets.[7] Limitations of this character are of little or no consequence to large companies but they probably influence greatly the large number of very small companies in the industry. Out of an industry total of 349 in 1945, 68 companies had total assets of less than $1 million. For them, laws of the Illinois and New York type would effectively block participation in the urban mortgage market, outside of the financing of single family dwellings and small multifamily and nonresidential structures.

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[2] Jones' *Illinois Statutes Annotated,* 1939 Rev., Vol. 11, art. 8, § 125 (1), (e).

[3] Compiled Laws of the State of Michigan, 1929, Vol. 3, § 12305.

[4] Florida Statutes, 1941, Vol. 1, § 626.04.

[5] Consolidated Laws of New York, 1940, bk. 27, § 81 (6), (a).

[6] Jones' *Illinois Statutes Annotated,* 1939 Rev., Vol. 11, art. 8, § 125 (1), (e).

State statutes may also make specific provision for investment of life company funds in perpetual leaseholds (District of Columbia), real estate sales contracts, purchase money mortgages, or in leaseholds of fixed term, provided a stated unexpired term obtains at the time the loan is made (forty years in Minnesota,[8] fifty in Massachusetts,[9] and ninety-nine in Ohio [10]).

Finally, it should be noted that investments by life insurance companies in mortgages insured by the Federal Housing Administration, and in that portion of mortgage loans guaranteed by the Veterans' Administration, are generally exempt from the limitations discussed above, as well as from most of the restrictions dealt with below.[11]

LIMITATIONS ON THE AMOUNTS LOANABLE ON SPECIFIC PROPERTIES

Other provisions of state laws place an upper limit on the amount that may be loaned against a property of given appraised value. This is termed the maximum loan-to-value ratio. As indicated above, insured and guaranteed loans are generally exempt from this and other restrictive rules, but most states specifically limit loan-to-value ratios on other types of mortgages. The maximum is usually set at 50 or 66⅔ percent of the appraised value of the property, generally the latter; it is never below 50 and if above 66⅔ percent the law generally requires that the lending agency conform to certain provisions regarding maximum term and amortization of the loan balance or that it accumulate special loss reserves against the contracts, or both. For example, the New Jersey law permits loans up to 75 percent of appraised value if fully amortized, and if the company carries as a reserve the amount by which the loan exceeds 66⅔ percent of the appraised value of the property.[12] Similarly, the Wisconsin law, which limits a company to 50 percent loans, permits loans up to 60 percent of the property's appraised value if provision is made for complete amortization within fifteen years.[13] Leasehold loans may be limited to a smaller percentage and there may be a requirement, though not in all states, that the loan be reduced to an amount not above a specified percentage of the appraised value of the security if the value of the security falls.

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[7] Consolidated Laws of New York, 1940, bk. 27, § 81 (6), (a).

[8] Minnesota Statutes Annotated, 1946, Vol. 6, c. 60, § 40.

[9] Annotated Laws of Massachusetts, 1948, Vol. 5A, c. 175, § 63 (7).

[10] Ohio Code Annotated, 1948, § 9357 (H), (b). The Ohio statute also provides that the leasehold be renewable forever and that "the amount loaned thereon plus the value of the ground rent capitalized at 5 percent does not exceed 60 percent of the total market value of the real estate, buildings and improvements . . ." Ohio permits investment in shares of building and loan associations up to 5 percent of admitted assets in any one association.

[11] See Mason's *1940 Cumulative Supplement to the Compiled Laws of the State of Michigan, 1929,* c. 241A, § 12242-11 and Wisconsin Statutes, 1947 (19th ed.) 206.34 (1c).

In view of the dependence placed by state laws on property appraisals, it is natural that they should set standards of one sort or another that are intended to give validity to appraisements. For example, the Ohio law requires a written evaluation under oath by two real estate owners resident in the same county or local district where a property is located or by a "qualified land appraiser." [14] The New York law, on the other hand, merely states that no mortgage loan may be made by an insurer "except after an appraisal made by an appraiser for the purpose of such investment." [15]

LIMITATIONS ON THE GEOGRAPHICAL SCOPE OF LENDING

A third general type of provision, also meant to place a limitation on the assumption of investment risks, is that which restricts insurance company mortgage investments to those made on "real property located in the United States," as in New York law,[16] or, as in New

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[12] New Jersey Statutes Annotated, 1939, tit. 17, c. 24, § 1, (b).

[13] Wisconsin Statutes, 1947 (19th ed.) 206.34 (1c).

[14] Ohio Code Annotated, 1948, § 9357 (H), (a).

[15] Consolidated Laws of New York, 1940, bk. 27, § 81 (6), (a).

[16] *Ibid.*

Jersey,[17] to properties located in the United States and Canada. Maine's law is more restrictive, limiting its companies to loans on properties located in the New England states, a practice stemming from the fact that Maine savings banks are regulated in this way and that Maine subjects its insurance companies to the same investment requirements.[18] In most cases, however, the restrictions applying to life insurance companies are far more liberal than those applying to savings banks, savings and loan associations, and commercial banks. In Massachusetts, for example, savings banks are not permitted to lend on property in states noncontiguous to Massachusetts, or in places more than twenty-five miles distant from their main office, but insurance companies may lend on property in any of the forty-eight states and in the District of Columbia.[19]

The above limitations refer to statutory provisions applying directly to mortgage loans and imposed by states on their own chartered insurance companies. Reference should also be made to the Texas law which requires that at least 75 percent of the legal reserve required by the domicile state on policies written on the lives of citizens of Texas shall be invested by "foreign" companies (i.e., insurance companies chartered in other states) in Texas securities and Texas real estate.[20]

PROVISIONS RELATING TO MATURITY AND AMORTIZATION

In one respect insurance companies operate within a more liberal legal framework than do other mortgage lending agencies. State laws generally do not limit insurance companies with respect to the length of term for which mortgage loans may be made or the schedule on which repayments must be made. The only condition on which restrictions of this type may be imposed is where the original amount of the loan exceeds two-thirds of the appraised value of the property. In such cases the law may require that all, or part, of the loan be amortized in a specified period.[21]

[17] New Jersey Statutes Annotated, 1939, tit. 17, c. 24, § 1, (b).

[18] Revised Statutes of the State of Maine, 1944 (8th Rev.) Vol. 1, c. 56, § 63.

[19] Annotated Laws of Massachusetts, 1948, Vol. 5A, c. 175, § 63 (7) and c. 168, § 54 (first).

[20] Vernon's *Civil Statutes of the State of Texas, Annotated,* 1925 Rev., Vol. 14, c. 4, art. 4765.

[21] As in the Wisconsin statute cited in footnote 13, above.

PROVISIONS RELATING TO EQUITY INVESTMENT IN REAL ESTATE

Finally, state insurance laws contain a variety of provisions affecting real estate investment by life companies. These provisions are primarily concerned with three questions: under what conditions may real estate be acquired; how much may an individual company invest in this form; and how long may specific properties be held in the owned real estate account?

Companies are ordinarily permitted to own property necessary for the conduct of their business, but the amount of this class of real estate that may be held is subject to certain limitations. In Arizona, companies may invest up to 50 percent of their subscribed capital stock in home office property after investment of $50,000 in bonds and mortgages.[22] Illinois requires that the real estate held for office purposes must not exceed 5 percent of the total admitted assets, except by approval of the director of the state insurance department.[23] Massachusetts permits such investments up to 10 percent of the company's admitted assets and Wisconsin up to 20 percent; [24] Michigan allows investment in home office property by stock companies up to 20 percent of their admitted assets, provided the commissioner approves the investment and has obtained the certification of at least three resident property owners, appointed by him, that the property has a value not less than the company's proposed investment.[25] And some states place no special limitation on the amount of property held for business use, but a general limitation on property holdings may be contained in the law, as in New Jersey, where real estate holdings are limited to 5 percent of admitted assets, excepting property for accommodation of business and housing projects.[26]

Beyond this general power to own property, state laws provide, though not uniformly, that companies may hold property acquired through foreclosure or in satisfaction of indebtedness previously owed to the company, property acquired to protect or enhance the value of other real estate,[27] and property acquired in exchange. As regards the latter, California requires that it must not increase the company's real estate investment,[28] and Illinois stipulates that it must not exceed 2 percent of the insurer's total admitted assets.[29] Companies are also permitted to improve properties acquired in any of these ways.

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[22] Arizona Code, 1939, Vol. 4, c. 61, § 325, (3).

[23] Jones' *Illinois Statutes Annotated,* 1939 Rev., Vol. 11, art. 8, § 128 (1), (a).

[24] Annotated Laws of Massachusetts, 1948, Vol. 5A, c. 175, § 64; Wisconsin Statutes, 1947 (19th ed.) 201.24 (2).

[25] Compiled Laws of the State of Michigan, 1929, Vol. 3, § 12298.

[26] Revised Statutes, Cumulative Supplement, 1939, New Jersey, 17:24-1 (b).

Specific limitations are not usually set on the amount of properties thus acquired that may be held by life companies, but the statutes frequently provide that these properties must be disposed of within a stated interval. This interval is ordinarily set at not longer than five years, except that a company may usually hold the property for a longer period provided it has the approval of the state's insurance supervisory authority.[30]

In addition to the right to hold property necessary for the conduct of their business, or acquired in the exercise of their powers as mortgagees, insurance companies have recently been granted the power under the statutes of several states to hold equities in real estate properties which have been acquired, either by purchase or construction, for investment purposes. In New York, for example, the insurance law provides that until December 1, 1949, housing projects may be undertaken within fifteen miles of any city of 75,000 or more population in any state where the company does business, provided that the aggregate investment in such properties does not exceed 10 percent of the company's total admitted assets on December 31 next preceding the date when the land was purchased.[31] Further, the New York law permits domestic companies to invest for income in other commercial and industrial property,[32] provided (*a*) that the aggregate amount of such real estate acquisitions and their improvement does not at any time exceed 3 percent of the company's total admitted assets, (*b*) that the investment in land and improvement for no single parcel shall exceed one-fourth of 1 percent of total admitted assets, and (*c*) that properties shall be depreciated at not less than 2 percent annually, and by an additional amount equal to the excess over 4 percent of net income on all properties of this type held as investments.[33]

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[27] Insurance Code of the State of California, 1944, Div. 1, pt. 2, c. 2, art. 2, § 1151.6.

[28] Insurance Code of the State of California, 1944, Div. 1, pt. 2, c. 2, art. 2, § 1150, (g).

[29] Jones' *Illinois Statutes Annotated,* 1939 Rev., Vol. 11, art. 8, § 128 (1), (e).

[30] In some cases the provision is for a three-year period plus one two-year extension.

[31] Laws of New York, 1946, c. 96, restricted companies to "emergency" housing; this limitation was removed by Laws of New York, 1946, c. 557.

[32] Agricultural properties and other types of minor importance are excluded.

A more general statute, aimed at the same objective, was passed in Connecticut. It provides that up to 5 percent of a company's total admitted assets may be invested in ways not specifically permitted under the charter or under the Connecticut laws regarding the investments of life insurance companies.[34]

Finally, the New Jersey law permits life insurance companies to invest up to 5 percent of their total admitted assets in real estate for residential construction in any city within the state,[35] and also to purchase or hold residential or business property, other than that noted above, for income-producing purposes, provided (*a*) that the state insurance commissioner approves the investment and (*b*) that the aggregate amount of the holding does not exceed 5 percent of the company's total admitted assets.[36] Statutes to the same general effect, although varying in liberality, have been added recently to the laws of California, Illinois, Massachusetts, Minnesota, Pennsylvania, and Wisconsin.

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[33] Laws of New York, 1946, c. 509.

[34] 1945 Supplement to the General Statutes, State of Connecticut, c. 218, § 826h.

[35] New Jersey Statutes Annotated, 1939, tit. 17, c. 19, art. 2, § 8.

[36] Revised Statutes, Cumulative Supplement, 1939, New Jersey, 17:24-1 (b).

CHAPTER 3

Organization of Mortgage Loan Departments of Life Insurance Companies

THE principal difference among life insurance companies in the organization of their urban mortgage loan departments lies in the way they acquire new business. Some companies obtain all, or a major part, of their new loans through a system of branch offices; others acquire them mainly from outside correspondents. In discussing the organization of loan departments and the manner in which portfolios are administered it will be necessary, therefore, to describe these two general operating plans in some detail. First, however, differences in the size of company portfolios, and in the broad types of loans that compose them should be considered, since these have an important influence on lending organization, whether the branch office or correspondent system, or some combination of the two, is used.

RELATION OF AMOUNT AND TYPE OF INVESTMENT TO LENDING ORGANIZATION

There are differences in organizational plans and operating procedures, depending mainly on the size of the portfolio being handled, even among companies following one or the other of the principal methods of acquiring mortgages. Clearly, a company that holds no more than a half dozen mortgages, as is true of a large number of small insurance companies, will conduct its lending activities differently from one with an investment of $100 million or more in urban mortgages. In the first case, mortgage lending will be merged with the other investment activities of the company; in the second the lending will be conducted through a special department with highly specialized personnel.

Accordingly, in considering the problem of department organization, the wide differences existing in the size of company portfolios should be noted. As was indicated in Chapter 1, sixteen of the sixty-eight companies having total admitted assets of less than $1 million in 1945 held no mortgage loans and of the thirty-seven companies in this size class that reported separately on urban mortgages, twenty-one had less than $100,000 so invested. At the same time, of the twelve companies with total assets of $1 billion or more, seven had urban mortgage loan investments of from $100 million to $200 million.

In addition to the size of a company's portfolio, the types of loans composing the investment exert a powerful influence on lending organization. In this respect, also, companies vary widely. Data on the types of urban mortgages composing individual company portfolios were reported on special schedules mailed to all life companies in June 1946. Companies were asked to indicate how their loan portfolios were distributed, as of the end of 1945, among Federal Housing Administration and the so-called "conventional," that is, noninsured, loans and to distribute the latter according to the property securing the loan, whether of the one- to four-family, five or more family, or nonresidential type. On the basis of returns from sixty-eight companies (holding nearly two-thirds of the urban mortgages of all insurance companies) certain generalizations can be made on the relation between the size and the composition of an individual company's mortgage loan investment.

First, companies with loan portfolios of less than $20 million limit themselves, with but very few exceptions, mainly to FHA loans and to conventional loans on one- to four-family structures. Second, companies in this same size class show a strong tendency to concentrate their activities either in FHA or in conventional lending. Some companies have achieved a nearly equal division of lending activities between the insured and the noninsured spheres, but this balance is infrequent in this size class. Obviously, the organization of a company's lending activity is profoundly affected by the types of loans in which it specializes.

Third, concentration on nonresidential lending is mainly characteristic of companies with portfolios of $100 million and over, and in some portfolios of this size, nonresidential lending accounts for the great bulk of activity. Finally, there are a number of cases among companies with the largest portfolios ($100 million and over), and among those with portfolios of between $20 million and $100 million, in which a broad diversification of loan types has been achieved.

To summarize, individual companies vary all the way from those that lend exclusively, or nearly so, on small residential properties on an insured basis (most frequently the small portfolio companies) to those whose portfolios consist mainly of large loans on income-producing properties of the residential and commercial type (mostly companies with large loan investments). Between these two extremes there are other companies (mainly those with intermediate- and large-sized investments) that follow a policy of broad diversification. The administration of the mortgage loan portfolio, and particularly the extent to which mortgage lending is separated from other investment activities, will naturally be greatly affected by these differences in type of business.

CORRESPONDENT *versus* BRANCH ORGANIZATION

The correspondent system of acquiring and servicing loans means that a life insurance company has arrangements with outside individuals, or companies, called "correspondents," whereby proposals for loans are brought to the loan department's attention. In the investment banking sense, it is an arrangement for "finding" new business. In performing this loan-originating function, the correspondent may assemble needed information, may assist in completing applications and other necessary papers, and may aid the insurance company in making its decision on a loan application. Beyond this, the correspondent may service all, or certain, of the approved loans. In this capacity he collects interest and principal payments and forwards them to the insurance company, prepares necessary reports on the larger income-producing properties, and makes occasional field inspections.

In contrast, the branch office system is administered by company employees. Under this plan, company offices are established in selected cities, with responsibility for originating and servicing loans in a specified region. Although they may be located in the same quarters, the personnel responsible for lending activities operate independently of the insurance division.

In addition to the loans acquired through correspondents or branches, life insurance companies, like other types of mortgage lending institutions, also originate loans through their home office staffs and buy other loans from brokers or agents. The relationship of the latter to the insurance company is quite different from that of the loan correspondent, being of an *ad hoc* type, whereas the correspondent's relationship is expected to be continuous.

Often an insurance company acquires its loans exclusively through its home office staff and its system of correspondent relationships, or through its branch office system. To an increasing extent, however, companies are adopting a plan which is in effect a "cross" between the two arrangements. Under this system a company operates branches for its mortgage loan business and, in addition to loans acquired directly through these branches, others are acquired by each of the branches through local correspondents or brokers. In view of the widespread use of this combination plan, it will be interesting to discuss briefly the conditions which led to its adoption.

During the twenties, most of the larger insurance companies acquired their loans almost exclusively through correspondents who were remunerated for their services by a fee paid at the time of loan origination. In return, the correspondent was expected to service the loan while it was outstanding. This system worked satisfactorily as long as the volume of new loans was high, but when new loan volume declined after 1929, and almost stopped in 1932, the incomes of correspondents were sharply curtailed and many of them were unable to maintain the necessary staffs. As a result, insurance companies had either to subsidize the correspondents or to establish their own systems of loan servicing through branch offices. The problem was made more serious by an increasing proportion of delinquent loans and a rapidly mounting owned real estate account.

Various plans for remunerating correspondents were worked out. Agents were paid a flat monthly sum, depending on the number of mortgages being serviced, or fees were set at a percentage, often 5 percent, of collections. One estimate was that the payments would amount to about one-eighth of 1 percent on outstandings where income properties were concerned; presumably the rate would have been higher on smaller residential property loans.[1]

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[1] This conforms in a general way with present levels of servicing fees, as indicated in Chapter 5, when account is taken of the differences in the general level of costs between the two periods.

After this depression experience, a number of the larger companies established their own branch systems. Sometimes this was accomplished quickly by directly employing certain correspondents. However, the shift to a branch office system was not so complete as in farm mortgage lending. In this field, almost all the insurance companies with large farm loan holdings now operate largely through branches.

The problem of selecting the most appropriate form of loan department organization is complicated by the fact that the merits of the two principal plans differ in the different phases of the lending cycle. In a period of active lending, when companies are aggressively acquiring new loans, there is naturally a high premium on the correspondent type of organization, especially in the field of large loans on income-producing properties. A branch organization is generally most effective when new lending is at a low ebb, since this is likely to be a time of relatively high loan delinquency and foreclosure. Under these conditions a company's primary interest is to maintain effective and continuous control over its mortgage investment, and this may ordinarily be accomplished most satisfactorily by company personnel. It is not surprising, therefore, that the recent rapid growth of urban mortgage lending has stimulated renewed interest in the correspondent system. Yet the lessons of the thirties have not been forgotten, which accounts for the maintenance by many companies of branch office systems.

Information on the extent to which the branch and correspondent systems were being used by insurance companies in the handling of their urban mortgage portfolios was assembled through a special schedule mailed to life insurance companies in 1946. Out of sixty-eight reporting companies, sixteen stated that they operated branches, and fifty-two indicated that their loans were acquired and serviced exclusively through correspondents and their own home office loan departments. Of the reporting companies operating branches, only two had extensive organizations. One had twenty-one branches and about five correspondents (exclusive of any *ad hoc* arrangements with other outside agents or brokers); the other had twenty-eight branches and about twenty correspondents. From these two cases, which represent the most extensive branch office systems among the responding companies, it appears that most of the business (possibly 80 percent) was acquired and serviced through salaried employees attached to the branches and the remainder through correspondents and other outside agents.[2] Of the remaining fourteen companies, seven had portfolios of $100 million or more and operated from two to ten branches, although the bulk of their business was acquired and serviced through correspondents. The other seven companies, with portfolios of from $20 million to $100 million, acquired and serviced a fairly high proportion—about 30 percent in a number of cases—through their home office mortgage departments. As would be expected, the companies with smallest portfolios depend most heavily on their home office staffs for the acquisition and servicing of loans.

Companies not operating branches naturally divide their mortgage lending between correspondents (or other outside agents) and their home office mortgage department. Some nonbranch companies, predominantly those with mortgage loan portfolios amounting to less than $5 million, do not use the services of correspondents. All loan acquisitions, and all servicing of outstanding balances, are handled by their home office staffs. Of course, this type of organization limits the scope of the lending, particularly since the insurance company, unlike the savings bank, commercial bank, or savings and loan association, does not aggressively pursue new business through direct advertising. The home office staff ordinarily has a more or less passive attitude and, consequently, a large volume of loans can be built up only through correspondents or branch personnel.

Regarding the proportion of mortgage loans of nonbranch companies handled through correspondents and other outside agents, the tabulations covering 1945 operations show that sixteen out of twenty-nine respondent nonbranch companies with loan portfolios of less than $5 million, and fifteen out of twenty-one nonbranch companies with portfolios of $5 million and over, acquired 70 percent or more [3] of their mortgage loans through loan correspondents. Of these same companies, eleven with small, and nine with large, portfolios had 70 percent or more of their mortgage loan balances serviced through loan correspondents. Other companies reported smaller proportions of their business taken care of in this way. As indicated above, nearly half of the small portfolio companies handled their entire loan origination and servicing functions through their home offices.

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[2] It is difficult to estimate these proportions, though it is easy to distinguish at the extremes between loans acquired through full-fledged corrrespondents having an established and continuing relationship with the company, and loans handled from origination through servicing by branch office personnel. It is not easy, however, to draw a line that clearly separates the two in all cases. Thus, some loans were acquired by branches from outside agents, who served only as brokers and did not necessarily have a continuing relationship with the company. Ordinarily, these agents merely sold loans singly or in groups, at a premium over their face amount and, unlike the correspondent, did not service loans on a continuing basis. In view of the difficulty of distinguishing between the two, the percentages expressing the distribution of loan acquisitions between correspondents and branches should be viewed only as rough approximations.

The situation was roughly similar in 1946, except that a somewhat larger proportion of companies with portfolios of $5 million and over depended on correspondents for the origination and servicing of 70 percent or more of their mortgage loans. This shift bears out the contention that the dependence of lending agencies on outside agents is highest during periods of loan expansion. The wish to build up new loan volume during periods of expansion, as well as to have a closely controlled and dependable organization for servicing loans during periods of contraction, has motivated companies to adopt the joint correspondent-branch type of system.

Aside from the question of branch *versus* correspondent organization, there are no striking differences in the setup and administration of insurance company mortgage lending activities. All companies, except those with very small portfolios, supervise operations through home office mortgage loan departments, generally separate divisions under the direction of a principal officer.[4]

The organization of these departments varies among companies but the differences are more in matters of detail than in broad policy and plan of organization. Each department includes the following principal functions: (1) formulation of broad mortgage investment

[3] No company reported that all of its loans were serviced by outside agents, but four out of twenty-one companies with mortgage investments of $5 million or more reported that all of their loans were acquired through correspondents or other outside agents. In general, the proportion of loans serviced by correspondents is the same as the proportion of loans acquired through outside agents. However, the number of correspondents servicing loans at a given time will generally be larger than the number of correspondents from whom loans have been purchased in the preceding year, since loan servicing is a continuing activity while loan origination is intermittent.

[4] The degree to which an insurance company centralizes its mortgage lending activities in a special department varies directly with the size of the company and with the size of its mortgage investment. However, even those companies with large mortgage investments differ in the extent to which the loan department utilizes facilities of other specialized divisions of the company, such as the legal department, the accounting department, etc. As will be seen in Chapter 5, this difference in company policy presents one of the major difficulties in making estimates of lending costs.

policies; (2) supervision of home office, branch, and correspondent personnel and operations; (3) consideration of all loan applications and formulation of recommendations for action by the company's finance committee; (4) maintenance of adequate records on all closed loans, including a record of payments of interest and principal and the necessary insurance and tax accounts; and (5) operation, when needed, of a real estate management department.

Handling Mortgage Loans

It would be impossible within the scope of this chapter to trace all of the steps taken in handling even a single type of mortgage loan, but in order to clarify some of the problems of measuring lending costs and of deriving the rates of foreclosure and loss, the main steps are outlined in this section. While there are differences among companies, depending mainly on the way in which they are organized to acquire and service loans and the type of loans made, a proposed loan brought formally to the attention of the home office department consists of the following documents: (*a*) a loan application made out by the borrower, which gives detailed information on the property and states the desired terms of the loan; [5] (*b*) a report on the loan prepared by the company's correspondent, agent, or branch or home office employee, which gives an appraisal and incorporates a recommendation for finance committee action; (*c*) a legal description of the property; and (*d*) photographs. Naturally, the record varies a good deal with the type of property involved. Essentially, however, the data presented give facts about the property, the neighborhood, and the borrower necessary for satisfactory completion of the risk-rating function.

Insured loans made on small residential properties are the simplest type. Here risk-rating virtually disappears and the concern of the lending agency is merely to see that the proposal qualifies under the rules of eligibility set down by the insuring or guaranteeing agency. Contrast this with a conventional, that is, noninsured loan on an office building, hotel, suburban shopping center, or apartment building. A careful analysis must give assurance that the lien can be satisfactorily established; that the property will produce sufficient income, even under straitened conditions, to meet the mortgage payments; that the property has been fairly valued; that the loan-to-value ratio and amortization provisions will give the lender an adequate margin of collateral value over the loan balance at all times; and that the interest rate, and such terms of the loan as length of contract and prepayment privileges, make the investment attractive from the viewpoint of handling costs and net return relative to the return available on other uses of the company's funds. Here we have every element of the risk-rating process.[6]

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[5] An individual's application for a home mortgage will now generally include information about his income, employment, assets and liabilities, etc. However, the lender's preoccupation with the physical security means that most of the data refer to the property. This was even more marked in earlier years.

When all available facts pertinent to a given loan proposal have been reviewed, and when the officer in charge has determined that the loan should be made on the stipulated or revised terms, a recommendation to this effect is made to the finance committee, or to such other subcommittee of the company's directors as is charged with the responsibility for approving loans. If the loan is approved, all the legal papers are prepared and the loan is closed. The disbursement of funds follows immediately, and the necessary accounting records are then prepared. These records consist of an accounting card (now invariably a separate ledger card, which is, in some companies, processed in part by punch-card tabulating equipment) on which are recorded all payments of interest and principal, payments on insurance and taxes,[7] and notations concerning delinquency, loan contract modification, etc. From this record can be prepared periodic reports on new loans made, repayments on principal, interest and other income, delinquencies, foreclosures and real estate owned—the essential facts for the management of a mortgage portfolio.

Management of the owned real estate account is, of course, a separate element of company organization. Its problems are no different from those of real estate management by any other type of agency, except that the insurance company may be inclined to take a detached position, and generally has the property managed, on contract, by some outside agency.

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[6] The risk-rating problem varies greatly from one type of property to another. There are excellent handbooks that deal with the process in great detail, particularly with the ever-changing problems of property appraisal.

[7] One of the notable lessons of the mortgage debacle of the early thirties was that the mortgagor could, to his advantage as well as that of the mortgagee, pay property insurance premiums and taxes through the latter. This avoids the unpleasant and generally unprofitable incident of foreclosing property on which taxes are long delinquent, or property destruction without adequate insurance coverage. Furthermore, the lender is more alert to trouble, since insurance or tax delinquency is frequently a forerunner of mortgage delinquency.

CHAPTER 4

The Urban Mortgage Market Served by Life Insurance Companies, 1920-46

THE urban mortgage market served by life insurance companies from 1920 to 1946 may be described in terms of the characteristics of a sample of urban mortgage loans that were drawn for use in the analysis of mortgage loss experience. The description is necessarily in terms of those loan characteristics on which data are available in the records of lenders over the entire period—that is, geographical distribution of loans, types of property financed, and salient features of the loan contracts. Data on the social and economic identity of the mortgagors would be of interest for such a description, but these are generally lacking in records of loans made prior to the early thirties.

The sample covers twenty-four large insurance companies which, in the aggregate, held about 65 percent of the total amount of urban mortgage loans of life insurance companies as of December 31, 1944.[1] Each company drew records from its active and inactive files covering every 100th loan made since January 1, 1920, and pertinent information on each sample loan was transcribed onto a "loan experience card."[2] No data were requested that would identify the mortgagor or the property securing the loan, and the analysis combined the loans of all cooperating companies into one group. The sample provided 8,931 loans, with an original face amount of $92,141,000. The results for mortgage loss experience are given in Chapter 6; in this chapter the data are used to reconstruct the mortgage lending history of life companies since 1920 and to describe the mortgage portfolios held by these companies at the end of 1946.

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[1] The thirty insurance companies having the largest urban mortgage loan portfolios at the end of 1944, and accounting for about 85 percent of all urban mortgage loans held by life insurance companies at that time, were asked to participate in the study. All but six companies (one among the largest, another medium-sized, and four quite small) cooperated.

[2] The loan experience card and the instructions followed by cooperating companies in selecting their loan samples and transcribing data from the primary records are reproduced in Appendix A.

Review of Insurance Company Lending History, 1920-46

In order to reconstruct the urban mortgage lending history of life insurance companies from 1920 through 1946, the 8,931 loans included in the sample were grouped, according to the year of their origination, into five periods chosen to coincide as nearly as possible with broad shifts in the underlying character of the urban mortgage market. Table 7 shows the distribution of these loans according to period originated and property type.

TABLE 7 — Sample of Urban Mortgage Loans Made by 24 Leading Life Insurance Companies, Classified by Type of Property and Period Made, 1920-46[a]

(dollar figures in thousands)

Period Made	*1-4 Family Dwellings*		*All Other Property*		*All Property*	
	No.	Orig. Amt.	No.	Orig. Amt.	No.	Orig. Amt.
1920-24	851	$3,780	118	$5,602	969	$9,382
1925-29	2,061	11,069	239	16,760	2,300	27,829
1930-34	809	4,447	54	2,689	863	7,136
1935-39	1,177	6,525	139	8,968	1,316	15,493
1940-46[b]	3,243	16,492	224	15,734	3,467	32,226
Not available	16	75	..	..	16	75
Total	8,157	$42,388	774	$49,753	8,931	$92,141

[a] Represents a 1 percent sample of all loans made after January 1, 1920.
[b] Includes 73 loans made in 1947.

GEOGRAPHICAL SCOPE OF LENDING[8]

Several broad observations, based on the evidence presented in Table 8, may be made concerning the geographical scope of urban mortgage lending by life insurance companies since 1920. First, although the market served by some insurance companies may be limited, all leading companies combined have operated in a market that is national in scope. Second, this credit market, when described in terms of the regional distribution of loans, is roughly like the distribution of total population and, when described in terms of the size of the place in which property securing the loan is located, coincides generally with the distribution of urban population. And third, the geographical distribution of insurance company lending in the urban mortgage field has not changed substantially since 1920. The relatively low percentage of loans made in New England in 1920-24 appears to be due to peculiarities of the data.[4] Other changes, notably the decline in the relative importance of the West North Central region and the growth in the relative importance of the West South Central region, as well as the tendency for an increasing proportion of loans to be made on properties located in the smallest centers of population, appear to reflect basic shifts in the mortgage market served by life companies.

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[8] States included in the census regions discussed in this section are as follows: New England—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; Middle Atlantic—New York, New Jersey, and Pennsylvania; East North Central—Ohio, Indiana, Illinois, Michigan, and Wisconsin; West North Central—Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas; South Atlantic—Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, and Florida; East South Central—Kentucky, Tennessee, Alabama, and Mississippi; West South Central—Arkansas, Louisiana, Oklahoma, and Texas; Mountain—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada; Pacific—Washington, Oregon, and California.

TYPE OF PROPERTY FINANCED AND AMOUNT OF LOAN MADE

Since the amount of a mortgage loan depends in large part on the type of property that secures it, changes since 1920 in the types of property financed and in the original amount of loans are closely related. Table 9 shows that over the whole period loans on single family dwellings have constituted the most common type made by life companies, and, accordingly, loans of less than $10,000 have accounted for roughly 85 percent of the number, and 35 percent of the amount, of all loans made.

Additional details on size of loan are given in Appendix Table B3 for one- to four-family dwellings and for all other property types, separately. This table shows that over 90 percent of the number and 75 percent of the amount of loans made on one- to four-family dwellings were for an original amount of less than $10,000, with the average size of loan fairly constant, ranging from $4,400 in the 1920-24 period to $5,500 in the 1930-34 and 1935-39 periods. On the income-producing properties about 60 percent of the number and 90 percent

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[4] At the end of 1924, life company urban mortgages outstanding in New England accounted for about 3 percent of the total according to figures compiled by the Association of Life Insurance Presidents for a group of insurance companies holding 90 percent or more of the total admitted assets of all companies.

TABLE 8 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE AND GEOGRAPHIC LOCATION, 1920-46 [a]

(percentage distribution of number and original amount)

Geographic Location	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
CENSUS REGION [b]										
New England	.6%	.6%	2.2%	2.0%	2.6%	6.1%	2.8%	6.7%	3.0%	4.2%
Middle Atlantic	13.1	21.0	21.9	38.0	18.4	29.2	24.1	37.1	16.5	32.2
East North Central	20.5	26.5	23.2	24.8	25.8	28.3	25.6	17.0	21.2	21.7
West North Central	22.5	19.0	9.6	7.8	8.5	6.4	8.6	4.5	7.1	6.1
South Atlantic	14.4	11.8	11.4	8.4	11.1	6.7	14.1	14.3	17.3	12.3
East South Central	9.7	5.0	7.5	3.5	7.1	4.1	6.1	2.7	6.4	3.5
West South Central	5.7	6.8	4.0	3.1	5.0	3.2	6.2	6.3	13.7	9.6
Mountain	2.2	1.2	2.6	1.5	3.0	2.2	2.0	2.1	2.4	1.3
Pacific	11.3	8.1	17.5	10.8	18.4	13.7	10.4	9.3	12.5	9.1
SIZE OF CITY [c]										
1,000,000 and over	16.7	29.8	20.2	33.2	16.2	28.3	18.4	28.1	13.5	21.9
500,000 – 999,999	3.5	9.8	6.3	9.8	5.9	11.3	7.4	5.5	5.3	13.5
250,000 – 499,999	27.7	27.2	24.7	21.6	18.7	17.2	15.7	11.0	17.9	15.9
100,000 – 249,999	23.4	16.7	14.8	11.6	17.4	10.9	13.3	12.2	15.5	13.2
25,000 – 99,999	18.7	10.4	17.9	15.0	22.8	16.8	20.1	27.2	19.0	14.3
10,000 – 24,999	5.8	4.0	9.2	5.2	10.7	8.0	10.4	6.1	10.3	9.1
Under 10,000	4.0	2.0	6.6	3.4	8.2	7.4	14.6	9.8	18.2	12.0

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TABLE 8 — (concluded)

Geographic Location	1920-24		1925-29		1930-34		1935-39		1940-46	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
SIZE OF DISTRICT [c]										
Metropolitan	*88.8%*	*93.3%*	*89.0%*	*93.9%*	*88.2%*	*92.2%*	*88.9%*	*90.8%*	*81.8%*	*89.6%*
1,000,000 and over	26.0	39.2	39.0	54.8	38.9	56.2	43.9	57.0	33.2	49.8
250,000 – 999,999	34.5	37.9	33.0	28.3	26.6	21.2	28.7	19.1	29.8	28.6
100,000 – 249,999	23.8	13.2	13.4	8.7	18.3	12.7	13.3	10.2	15.6	9.5
50,000 – 99,999	4.5	3.0	3.6	2.1	4.4	2.1	3.0	4.5	3.2	1.7
Non-Metropolitan	*11.2*	*6.7*	*11.0*	*6.1*	*11.8*	*7.8*	*11.1*	*9.2*	*18.2*	*10.4*
25,000 – 49,999	5.4	2.7	4.4	2.7	5.4	4.1	3.6	5.1	4.7	2.8
10,000 – 24,999	4.2	3.5	4.0	1.8	3.8	1.9	3.2	1.6	4.8	2.5
Under 10,000	1.6	.5	2.6	1.6	2.6	1.8	4.3	2.5	8.7	5.1

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies. For a breakdown of the data in this table by two broad property types, see Appendix Table B2.

[b] For a listing of states included in the census regions, see footnote 3 of this chapter.

[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

TABLE 9 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE, TYPE OF PROPERTY, ORIGINAL LOAN AMOUNT, AND TYPE OF CONTRACT, 1920-46 [a]

(percentage distribution of number and original amount)

	1920-24		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF PROPERTY										
1-4 Family Dwellings	*87.8%*	*40.3%*	*89.6%*	*39.8%*	*93.7%*	*62.3%*	*89.4%*	*42.1%*	*93.6%*	*51.2%*
1 family [b]	78.0	31.3	78.8	31.9	87.1	54.9	85.9	40.1	89.0	47.6
2-4 family [b]	8.6	5.8	9.9	6.7	6.0	6.2	3.0	1.5	4.4	3.3
1-4 family with business use	1.2	3.2	.9	1.2	.6	1.2	.5	.5	.2	.3
All Other Property	*12.2*	*59.7*	*10.4*	*60.2*	*6.2*	*37.7*	*10.5*	*57.9*	*6.4*	*48.8*
Apartments	6.1	22.7	5.8	30.4	2.8	14.2	6.5	40.9	3.1	23.0
Stores	3.6	17.2	2.9	17.8	2.5	19.2	2.9	9.7	2.1	11.2
Other income property	2.5	19.8	1.7	12.0	.9	4.3	1.1	7.3	1.2	14.6
ORIGINAL LOAN AMOUNT [c]										
Less than $5,000	63.7	19.6	53.0	14.6	51.2	20.0	45.6	13.5	55.5	22.3
5,000 – 9,999	22.1	14.9	30.1	16.3	34.9	27.8	39.0	21.6	35.3	23.7
10,000 – 19,999	5.5	7.0	9.2	9.7	9.2	14.4	8.4	9.6	5.2	7.1
20,000 – 49,999	4.5	12.9	4.3	10.4	2.9	10.2	4.3	10.8	2.0	6.5
50,000 – 99,999	1.9	12.2	1.6	9.4	1.4	11.7	1.1	5.4	.9	7.0
100,000 and over	2.3	33.4	1.8	39.6	.4	15.9	1.6	39.1	1.1	33.4
TYPE OF CONTRACT [c]										
Straight mortgage	100.0	100.0	99.9	99.7	97.2	98.0	81.8	82.9	90.1	84.6
Purchase money mtg.	..	..	..	..	2.8	2.0	17.8	16.9	9.6	15.1
Real estate sales contract	..	..	..	..	..	..	.3	.1	.3	.3

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[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies.

[b] With no business use.

[c] For a breakdown of these data by two broad property types, see Appendix Table B3.

or more of the amount were on loans of $20,000 and over. The average size of loan for these properties varied widely—from $47,500 in 1920-24 to over $70,000 in 1925-29 and 1940-46.

A comparison of the loans made in 1925-29 with those made in 1930-34 suggests that the proportion of loans secured by income-producing properties, and therefore of loans of relatively large original amount, is very much less during periods of low real estate activity than during periods of expansion (Table 9). Owing to the lesser instability of construction in the small home field, loans on one- to four-family structures fluctuate less in volume than do loans on other types of property, and therefore rise in relative importance during periods of receding and low construction activity.

The effect of economic conditions on mortgage lending is also shown in the type of contract drawn, i.e., whether loans are made on a straight mortgage basis, as purchase money mortgages, or as real estate sales contracts (Table 9).[5] It was only on loans made in 1935 and later, when insurance companies were disposing of properties foreclosed under loans made in earlier years, that the purchase money mortgage and the real estate sales contract assumed any great importance.

LOAN CONTRACT TERMS

The introduction of mortgage loan insurance in 1934 revolutionized the contract terms on which life companies extend urban mortgage credits. There had been a trend toward a gradual liberalization of mortgage credit terms (interest rates on loans, length of contract maturities, and loan-to-value ratios) from 1920 to 1934, but in 1935 the change was greatly accelerated (Table 10 and Chart 4).[6] A brief review of the principal changes in lending policy of insurance com-

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[5] A purchase money mortgage is one taken as part of the consideration received on the sale of property owned by the mortgagee.

[6] Chart 4 and Appendix Table B5 give three-year moving averages of contract interest rates, contract lengths, and loan-to-value ratios, each weighted by three-year moving averages of original loan amounts. Table B5 also gives data on an annual basis for each of the three credit terms. The data refer to straight mortgages only and exclude purchase money mortgages and real estate sales contracts. A study of the latter two types of contracts showed that real estate sales contracts and purchase money mortgages of the 1930-46 period usually had a shorter contract length, and a higher interest rate, than straight mortgages and loan-to-value ratios of 80 percent or more, as compared with loan-to-value ratios averaging, with one exception, between 40 and 65 percent on straight mortgages. By the 1940-46 period, however, loans made on one- to four-family dwellings, regardless of type of contract, had an average loan-to-value ratio of about 80 percent.

TABLE 10 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE AND LOAN CONTRACT TERMS, 1920-46[a]

(percentage distribution of number and original amount)

Contract Terms	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF LOAN										
Insured										
FHA	..	..	..	..	..	..	29.5%	19.4%	57.4%	31.0%
Veterans' Adm.	..	..	..	..	..	..	..	..	3.4	2.3
Conventional										
Fully amortized	24.4%	9.0%	17.6%	9.5%	31.5%	16.8%	42.6	25.2	32.9	37.7
Partially amortized	58.6	68.4	59.6	63.0	51.5	53.0	25.8	51.5	5.5	27.0
Nonamortized	16.7	22.3	22.7	27.5	16.8	29.7	2.0	2.3	.5	1.7
CONTRACT INTEREST RATE										
3.0 – 3.9%	..	..	..	..	..	..	.1	.1	.8	7.8
4.0	..	..	[b]	1.2	.1	.9	.8	7.7	12.8	22.1
4.1 – 4.9	..	..	..	..	.1	[b]	13.1	20.1	70.8	59.2
5.0	.1	.1	.8	12.8	.7	11.2	53.9	50.1	13.3	9.1
5.1 – 5.9	16.7	31.2	24.6	40.9	10.9	17.0	15.8	12.0	1.2	.5
6.0	72.3	57.9	70.5	43.4	79.5	64.4	15.9	9.9	1.0	.9
6.1 and over	10.8	10.8	4.0	1.6	8.6	6.4	.3	.1	[b]	[b]

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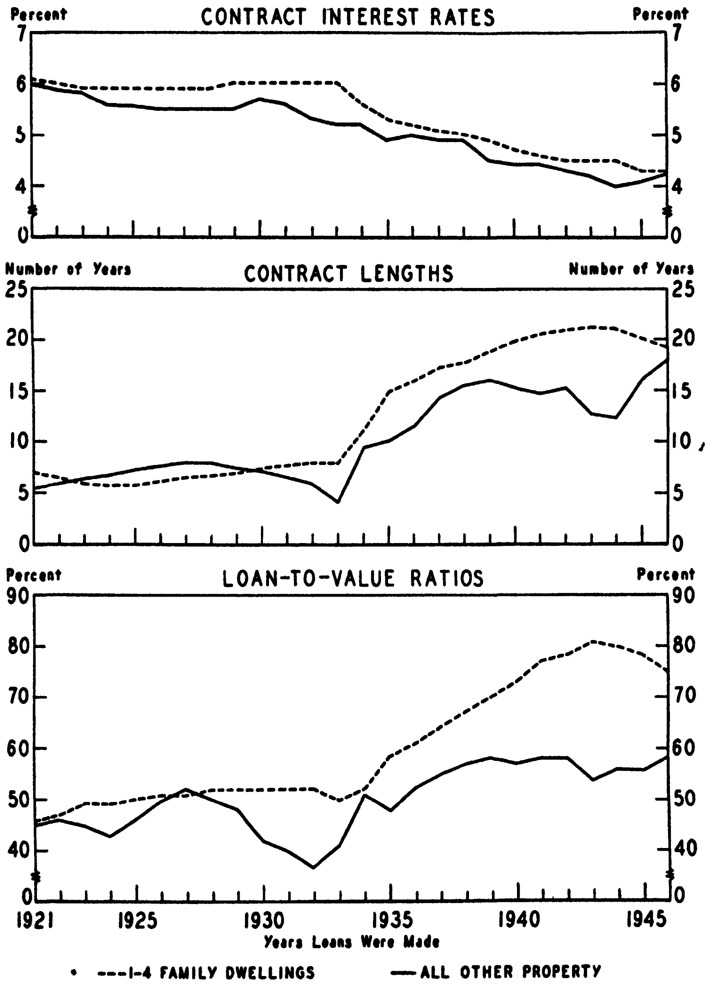
TABLE 10 – (concluded)

Contract Terms	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
CONTRACT LENGTH										
0 – 4 years	12.5%	13.9%	22.0%	19.2%	17.5%	23.1%	1.8%	1.3%	.3%	.1%
5 – 9	60.4	64.7	48.7	48.4	38.7	42.8	7.7	9.4	1.6	2.7
10 – 14	26.8	21.2	24.8	25.0	23.7	19.9	28.2	40.9	10.2	21.2
15 – 19	.1	b	3.9	2.6	19.2	13.3	23.9	21.0	20.1	32.7
20 and over	..	..	.3	4.6	..	..	38.2	27.3	67.4	42.6
LOAN-TO-VALUE RATIO										
0 – 39%	14.2	21.8	7.7	11.3	7.9	19.0	5.5	9.2	2.4	4.3
40 – 59	61.8	63.4	75.0	66.5	58.9	60.0	28.2	36.1	12.8	19.4
60 – 79	4.5	7.1	7.3	19.0	7.5	7.2	39.0	36.1	26.8	39.7
80 and over	.6	1.3	b	.2	2.0	1.8	26.5	18.3	57.5	35.1

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies. For a breakdown of the data in this table by two broad property types, see Appendix Table B4.

[b] Less than .05 percent.

CHART 4 – CONTRACT INTEREST RATES, CONTRACT LENGTHS, AND LOAN-TO-VALUE RATIOS ON A SAMPLE OF STRAIGHT URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, 1921-46 *



*Three-year moving averages of interest rates, contract lengths, and loan-to-value ratios, each weighted by three-year moving averages of original loan amount. Data in Appendix Table B5.

Contract terms on loans secured by one- to four-family dwellings were liberalized in the twenties, and eased sharply after 1934. Some tightening of terms occurred during the early thirties.

panies shows that: First, amortized loans, which are now well-nigh universal in the mortgage field as a result of the introduction of loan insurance, were made on a fairly large scale before 1930 (Table 10). Only about one-sixth of all loans made in 1920-24 were of the non-amortized variety. Full amortization by maturity was provided on over a quarter of the loans and partial amortization on more than half of the loans made in 1920-24 on one- to four-family dwellings. Only a few loans made on income-producing properties in this period were fully amortized but 75 percent of those made were partially amortized (Appendix Table B4).

Second, the decline in interest rates affected loans on one- to four-family structures somewhat later than loans secured by other types of properties. When the decline in rates on one- to four-family home loans did begin, however, it proceeded more rapidly than the fall in rates on loans secured by other properties.

Third, the liberalization of mortgage loan contracts through lengthening of the original term to maturity definitely did not begin to show marked advances until 1934, and followed some tightening of credit terms on income-producing property loans during the preceding five years (Chart 4 and Table 10).

It may be of interest to note that there was a considerable difference, in respect to length of loan-life, between expectations and realizations on loans made prior to 1935. Such comparisons are of little significance for loans made in and after 1935, since most of these were still on the books in 1946, but it is significant that loans made in the periods 1920-24, 1925-29, and 1930-34, and extinguished in one form or another by the end of 1946, had actual lives averaging 7.9, 10.8, and 8.6 years, respectively, compared with expected lives of 6.1, 6.7, and 7.5 years.[7] The difference between the contract and actual time to extinguishment of loans was greatest for those loans that went to default and for loans made on income-producing properties. While the average contract life for all loans made between 1920 and 1934, and extinguished by 1946, was 6.7 years, the defaulted loans had an actual life of 13.9 years between origination and final sale of property, while other loans had an average actual life of 8.3 years. The actual life of loans on income-producing properties, whether or not the loans went to foreclosure, tended to differ from the average contract life considerably more than was the case for loans on one- to four-family dwellings.

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[7] Averages are weighted by original loan amounts. The length of the actual life of all loans made in the several periods will not be known, of course, until all loans are extinguished, but it will be considerably longer than that indicated above, since 3.2, 8.6, and 10.7 percent of the number, and 7.4, 14.5, and 13.0 percent of the amount, of loans made in the periods 1920-24, 1925-29, and 1930-34, respectively, were still outstanding when the samples were drawn. See Appendix Tables B6 and B7 for the data upon which the above comments are based.

And finally, a liberalization of urban mortgage lending terms is also evident in changes in the ratio of the amount of the loan to the appraised value of the underlying security (Chart 4). On loans made on one- to four-family dwellings, the loan-to-value ratio was comparatively stable (about 50 percent) until 1934 when the amount loaned relative to appraised value increased rapidly so that by 1943 it was over 80 percent. Following a very considerable tightening of terms from 1928 through 1932, the terms on income-producing properties were eased, but not so greatly as those on one- to four-family dwellings.

While some terms were eased before 1934, the sharp change after that year reflects the shift from a largely noninsured to a predominantly insured portfolio. Important conclusions to be drawn from these data are that (1) by the late thirties, urban mortgage terms had reached a distinctly different level from that characteristic of the twenties, and (2) there was no tightening of terms during the early thirties except on income-producing properties.

The above data on the terms of mortgage loans refer to the provisions of original contracts, but these terms are frequently modified before the loan is extinguished. More than one-third of all loans made from 1920 to 1929 were modified one or more times. As a rule, modifications relaxed terms by extending contract maturity, reducing interest rate, or advancing more funds against the same security. An extension of the contract term was the most frequent modification, occurring in about five-sixths of the modified loans studied, followed by interest rate reductions, which were effected in nearly one-half of the cases. Advances of additional funds were made on about one-sixth of the modified loans, and on about one-tenth of them the lender agreed to a compromise, that is, to a reduction of the principal. This pattern of modifications did not vary much among loans secured by different types of property. But, the more often a loan was modified the more likely it was that the modifications would be an extension of term and a compromise of principal rather than a reduction of interest rate or an advance of additional funds.

URBAN MORTGAGE PORTFOLIOS OF INSURANCE COMPANIES, END OF 1946

The mortgage loan sample makes it possible to describe the composition of urban mortgage loan portfolios in 1946 in the same terms as those employed in the reconstruction of lending history. In this analysis all the loans outstanding when the sample was chosen—3,390 loans with an original amount of $37,128,000—are classified according to relevant characteristics.

GEOGRAPHICAL DISTRIBUTION

The distribution of outstanding loan balances at the end of 1946 throughout the United States and in places of different population size is shown in Table 11. The wide regional spread of insurance company mortgage lending is clear from this table. It will also be observed that the market for loans on one- to four-family dwellings, as served by life companies, is wider in regional scope than the market for loans on income-producing properties. The concentration of mortgage loans on properties in places of relatively large population size (Table 11) is also less marked for loans on one- to four-family properties than for other types; on the former about one-half, and on other properties about one-quarter, of the number and amount of loan balances are found in cities with populations of less than 100,000; similarly about 35 percent of the number of loans on one- to four-family homes and 15 percent of the number of loans on other property types were located either in non-metropolitan districts or in metropolitan districts with populations under 250,000.

TYPE OF PROPERTY FINANCED AND AMOUNT OF LOAN MADE

Insurance company urban mortgage loans outstanding at the end of 1946 are classified in Table 12 according to the type of property that secured them and in Table 13 according to two broad property classes and amount of original loan. Outstanding in these two tabulations are the overwhelming importance, in terms of number, of loans made on single family properties and the predominance among these of small-sized loans. About 90 percent of the number and 45 percent of the amount of loans outstanding were on one- to four-family properties (the great majority on single family homes) and on this type of property about 95 percent of the number and 85 percent of the

TABLE 11 — URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION [a]

(percentage distribution of number and amount outstanding)

Geographic Location	*1-4 Family Dwellings*		*All Other Property*	
	Number	Amount	Number	Amount
CENSUS REGION [b]				
New England	3.2%	3.3%	4.8%	7.2%
Middle Atlantic	22.1	23.5	31.3	54.1
East North Central	20.2	21.1	24.4	15.0
West North Central	6.4	6.0	9.6	5.9
South Atlantic	16.6	16.1	9.3	7.5
East South Central	6.1	5.5	2.1	.3
West South Central	12.0	12.1	4.1	4.4
Mountain	2.4	1.9	.3	.1
Pacific	11.0	10.5	14.1	5.5
SIZE OF CITY [c]				
1,000,000 and over	15.2	15.5	37.1	40.9
500,000 - 999,999	5.0	5.4	12.7	7.9
250,000 - 499,999	16.9	16.5	13.4	12.8
100,000 - 249,999	14.2	12.6	11.0	12.2
25,000 - 99,999	19.6	18.5	14.8	15.7
10,000 - 24,999	10.4	11.2	4.1	5.3
Under 10,000	18.7	20.3	6.9	5.2
SIZE OF DISTRICT [c]				
Metropolitan	*82.9*	*84.1*	*93.5*	*97.8*
1,000,000 and over	35.7	39.2	63.6	71.4
250,000 - 999,999	29.1	28.3	21.7	21.6
100,000 - 249,999	15.0	14.0	6.5	2.6
50,000 - 99,999	3.1	2.6	1.7	2.2
Non-Metropolitan	*17.1*	*15.9*	*6.5*	*2.2*
25,000 - 49,999	4.5	3.8	1.4	.4
10,000 - 24,999	4.5	4.1	2.1	.3
Under 10,000	8.1	8.0	3.0	1.5

[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] For a listing of states included in the census regions, see footnote 3 of this chapter.

[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

amount were originally made in amounts of less than $10,000. Loans on the larger residential and other income properties accounted for a much higher proportion of the amount, than of the number, of outstanding loans.

TABLE 12 – SAMPLE OF URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY [a]

(percentage distribution of number and amount outstanding; dollar figures in thousands)

Type of Property	*Number of Loans*	*Amount Outstanding*	*Percentage Distribution*	
			No.	Amt.
1-4 Family Dwellings	3,099	$12,893	91.4%	44.0%
1 family [b]	2,905	11,792	85.7	40.3
2-4 family [b]	180	976	5.3	3.3
1-4 family with business use	14	125	.4	.4
All Other Property	291	16,356	8.6	56.0
Apartments	158	10,253	4.7	35.1
Stores	91	3,647	2.7	12.5
Other income property	42	2,456	1.2	8.4
Total	3,390	$29,249	100.0%	100.0%

[a] Based on a 1 percent sample of all loans made after January 1, 1920.
[b] With no business use.

TABLE 13 – URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND ORIGINAL LOAN AMOUNT *

(percentage distribution of number and amount outstanding)

Original Loan Amount	*1-4 Family Dwellings*		*All Other Property*	
	Number	Amount	Number	Amount
Less than $5,000	54.5%	40.2%	3.1%	.1%
5,000 - 9,999	39.6	46.4	14.4	1.4
10,000 - 19,999	5.3	11.2	19.9	3.8
20,000 - 49,999	.6	2.2	30.9	12.3
50,000 - 99,999	..	..	13.8	11.6
100,000 and over	..	..	17.9	70.8

* Based on a 1 percent sample of all loans made after January 1, 1920.

LOAN CONTRACT TERMS

The majority of mortgage loans held by life companies at the end of 1946 that were secured by one- to four-family properties were either FHA-insured loans, thus requiring full amortization by maturity, or were conventional loans written on a full amortization basis (Table 14). Although FHA loans are not made outside the small residential

TABLE 14 – URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS *

(percentage distribution of number and amount outstanding)

Contract Terms	*1-4 Family Dwellings*		*All Other Property*	
	Number	Amount	Number	Amount
TYPE OF LOAN				
Insured				
FHA	50.9%	47.7%	2.8%	8.4%
Veterans' Adm.	3.8	5.5	.7	.1
Conventional				
Fully amortized	32.5	35.6	32.6	17.0
Partially amortized	7.9	6.2	56.0	68.3
Nonamortized	4.8	4.8	6.9	6.0
SCHEDULE OF REPAYMENT				
Monthly	89.2	89.7	39.9	29.5
Quarterly	1.9	2.2	32.3	52.1
Semi-annually	3.1	2.6	14.1	7.1
Annually	.9	.6	6.2	2.6
None	4.8	4.8	6.9	6.0
CONTRACT LENGTH				
0 – 4 years	4.4	4.6	2.4	1.7
5 – 9	4.2	2.7	21.3	13.1
10 – 14	9.8	8.4	43.0	39.6
15 – 19	18.0	18.1	23.0	28.3
20 and over	63.2	65.8	10.3	17.3
LOAN-TO-VALUE RATIO				
0 – 39%	2.0	1.6	11.0	6.7
40 – 59	18.4	17.0	47.1	33.8
60 – 79	27.5	29.8	27.1	42.2
80 and over	51.9	51.3	13.4	14.8

* Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent, owing to the omission of a few loans because of data inadequacies.

field, except on a few apartment structures, only a small percentage of the loans outstanding in 1946 were of the nonamortized type. Table 14 also shows that monthly payments on principal characterized the great bulk of loans on one- to four-family properties; the use of the quarterly and semi-annual schedule of principal payments was a good deal more frequent in mortgages on other types of property.

As indicated in Table 14, credit terms tended to be more liberal with respect to loan-to-value ratio and contract length on loans secured by one- to four-family properties than on loans on other structures. Loans with original contract terms of twenty years and over were made mainly on one- to four-family properties; most other mortgage loans outstanding were made for shorter periods. In addition, half of the number and amount of loans on one- to four-family properties contrasted with about one-seventh of the loans on other property types were made with loan-to-value ratios of 80 percent and over.[8]

The broad outlines of the structure of original contract interest rates on life company mortgage loans are evident in Table 15, which classifies loans into two broad classes of properties and according to their original contract interest rates. This table shows that about 56 percent of the number and amount of loans secured by one- to four-family properties had original rates of between 4.1 and 4.9 percent. Interest rates on loans secured by other types of property, while also concentrated in the same range, were more widely distributed in higher and lower interest rate classes.

Additional data on urban mortgage interest rates are given in Tables 16 and 17. These rates differ from those presented in Table 15, being the rates carried by loans at the time the sample was drawn, rather than the original contract rates of these loans. Individual current interest rates for loans in the several classes, weighted by the

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[8] In view of the fact that a large share of life company mortgage loans are currently made on a long-term basis, it may be asked whether there had been, by 1946, a very substantial repayment of principal on existing balances. Of course, some loans made before 1946 had been fully repaid by that year, but it is interesting to inquire how much repayment had been made on those still outstanding at the end of 1946. Calculations based on the sample data show that the amortization of life company urban mortgage portfolios at the end of 1946 was only slightly over 20 percent. Put somewhat differently, only a little more than 20 percent of the original amount of all loans made since 1920, and still on the books at the end of 1946, had been repaid. The effective amortization is only a little over 10 percent, if only those loans made since 1940 are considered. See Appendix Table B6 for these data.

TABLE 15 — URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND ORIGINAL CONTRACT INTEREST RATE *

(percentage distribution of number and amount outstanding)

Original Contract Interest Rate	*1-4 Family Dwellings*		*All Other Property*	
	Number	Amount	Number	Amount
3.0 - 3.9%	.3%	.5%	5.2%	14.1%
4.0	11.2	14.7	19.9	26.2
4.1 - 4.9	55.9	56.9	33.7	31.2
5.0	18.3	16.8	18.2	14.7
5.1 - 5.9	4.6	3.6	11.0	5.1
6.0	9.0	7.2	10.7	8.3
6.1 and over	.6	.2	.6	.2

* Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies.

balance outstanding on each loan, have been averaged for this analysis. The principal conclusions to be drawn from these tabulations are as follows: First, the average rate of interest received on portfolios of urban mortgage loans at the end of 1946 was 4.5 percent on one- to four-family dwelling loans and 4.2 percent on income-producing property loans. These may be compared with weighted averages of the original contract interest rates on the same loans of 4.8 percent and 4.6 percent, respectively.

Second, there were virtually no geographical differences among interest rates on one- to four-family properties, whether rates are studied according to regions of property location, population size of the city, or metropolitan or non-metropolitan district in which the property was located (Table 16). Small differences are noted, but these are not significant; the overwhelming impression is one of similarity in interest rate levels in different geographical areas.

Third, interest rates on loans on all property types tended to be higher on loans with no amortization provision in their original contract than on those having provision for full amortization by maturity (Table 17). One would expect this to be true for insured loans, as compared with those not insured, but it is also true for loans made on a noninsured basis, indicating that the amortization feature is re-

TABLE 16 — AVERAGE CURRENT INTEREST RATES ON A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION[a]

(dollar figures in thousands)

Geographic Location	*1-4 Family Dwellings*			*All Other Property*		
	No. of Loans	Amt. Outstanding	Average Interest Rate[b]	No. of Loans	Amt. Outstanding	Average Interest Rate[b]
CENSUS REGION[c]						
New England	99	$421	4.6%	14	$1,178	3.8%
Middle Atlantic	682	3,021	4.6	91	8,845	4.2
East North Central	627	2,723	4.5	70	2,423	4.3
West North Central	198	777	4.5	28	971	4.5
South Atlantic	514	2,078	4.5	27	1,224	3.9
East South Central	189	707	4.5	17	771	3.7
West South Central	372	1,559	4.5			
Mountain	74	248	4.6	42	904	4.4
Pacific	341	1,347	4.5			
SIZE OF CITY[d]						
1,000,000 and over	470	1,993	4.7	107	6,649	4.2
500,000 - 999,999	154	691	4.6	37	1,286	4.2
250,000 - 499,999	524	2,130	4.5	39	2,092	4.1
100,000 - 249,999	437	1,617	4.5	31	1,989	3.8
25,000 - 99,999	609	2,394	4.5	43	2,578	4.4
10,000 - 24,999	321	1,444	4.5	12	870	4.4
Under 10,000	581	2,612	4.5	20	852	4.1
SIZE OF DISTRICT[d]						
Metropolitan	*2,565*	*10,835*	*4.5*	*270*	*15,953*	*4.2*
1,000,000 and over	1,105	5,054	4.6	184	11,645	4.2
250,000 - 999,999	900	3,646	4.6	63	3,533	4.1
100,000 - 249,999	464	1,795	4.4	23	775	3.9
50,000 - 99,999	96	340	4.6			
Non-Metropolitan	*531*	*2,046*	*4.5*	*19*	*363*	*4.3*
25,000 - 49,999	141	496	4.5	10	127	4.4
10,000 - 24,999	141	532	4.5			
Under 10,000	249	1,018	4.5	9	236	4.2

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[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Represents averages of current, or last contract, interest rates weighted by amounts outstanding.

[c] For a listing of states included in the census regions, see footnote 3 of this chapter.

[d] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

TABLE 17 – AVERAGE CURRENT INTEREST RATES ON A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 24 LEADING LIFE INSURANCE COMPANIES AT THE END OF 1946, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS[a]

(dollar figures in thousands)

Contract Terms	*1-4 Family Dwellings*			*All Other Property*		
	No. of Loans	Amt. Outstanding	Average Interest Rate[b]	No. of Loans	Amt. Outstanding	Average Interest Rate[b]
TYPE OF LOAN						
Insured						
FHA	1,577	$6,148	4.5%	10	$1,394	3.6%
Veterans' Adm.	116	712	4.1			
Conventional						
Fully amortized	1,006	4,584	4.6	93	2,745	4.3
Partially amortized	245	802	4.9	163	11,168	4.2
Nonamortized	148	612	4.9	20	984	4.5
CONTRACT LENGTH						
0 – 4 years	135	583	5.0	6	248	5.6
5 – 9	128	346	5.1	61	2,132	3.9
10 – 14	303	1,088	4.6	125	6,481	4.2
15 – 19	558	2,325	4.6	67	4,630	4.2
20 and over	1,961	8,490	4.5	30	2,825	4.1
LOAN-TO-VALUE RATIO						
0 – 39%	63	209	4.4	32	1,093	4.0
40 – 59	570	2,186	4.6	135	5,493	4.3
60 – 79	851	3,836	4.6	79	6,894	4.2
80 and over	1,606	6,607	4.5	39	2,430	4.1
ORIGINAL LOAN AMOUNT						
Less than $5,000	1,686	5,175	4.6	9	21	4.7
5,000 – 9,999	1,227	5,976	4.4	41	219	4.5
10,000 – 19,999	165	1,440	4.6	58	623	4.4
20,000 – 49,999	18	290	4.7	89	1,976	4.3
50,000 – 99,999	..	..	..	40	1,901	4.2
100,000 and over	..	..	..	52	11,576	4.1
Total[c]	3,096	$12,881	4.5%	289	$16,316	4.2%

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[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Represents averages of current, or last contract, interest rates weighted by amounts outstanding.

[c] Excludes five loans included in Table 12 because current interest rate was not available. The sum of number and amount does not necessarily add to total owing to omission of some loans because of data inadequacies.

garded as reducing risk sufficiently to warrant a more favorable interest rate.

Fourth, there was a distinct tendency for interest rates to be lower on loans of long maturity than on those of short contract length (Table 17). This results in part from the predominance of FHA-insured loans among those of long maturity in the small residential field. However, the relation cannot be wholly attributed to loan insurance, since there is some evidence of a similar pattern of rates on loans secured by properties outside the one- to four-family field, on which FHA insurance is relatively uncommon. Apparently, loans of a higher-than-average degree of risk are written for a relatively short maturity period and at a somewhat higher-than-average rate of interest. Also, higher interest rates would be justified on the shorter-term loans to compensate for the shorter period over which originating costs can be spread.

Fifth, although it might be expected that loans having a high loan-to-value ratio would carry higher interest rates than loans having a low ratio, there is no evidence of this possibly due to the combination of relatively high loan-to-value ratios and low interest rates on FHA loans (Table 17).

Finally, there was a distinct tendency for interest rates on loans secured by properties other than the one- to four-family type to decrease as the size of the loan increased. This is the most marked and regular relationship observed in the interest rate data and doubtless results primarily from the fact that costs of administration are proportionately lower on loans of large size. However, there was very little difference in the interest rates on one- to four-family home loans according to size of loan.

CHAPTER 5

Urban Mortgage Lending Costs and Returns of Life Insurance Companies, 1945-47

INFORMATION about the level of mortgage lending costs and returns and about their relation to various measures of lending activity is essential to an analysis of many mortgage financing problems. This is particularly true of problems that involve the probable implications of public and private policies relating to interest rates. Accordingly, a special study was made, as part of this survey of urban mortgage financing by life insurance companies, of the costs incurred in extending credit on the security of urban properties and of the net income earned by these lenders on their urban mortgage investments. Naturally, the results of a study of this kind are directly applicable only to insurance companies, but they also throw much light on the operations of other lenders, although modifications in the findings must be made to fit the special circumstances under which other agencies extend credit.

The main objectives of the analysis have been to ascertain the level of operating costs, to determine how these costs are divided among the several principal functional divisions of the lending process (loan acquisition, loan servicing, and general administration), and to determine how the level of operating costs varies with the amount of a company's mortgage investment, the average size of its individual loan balances, and the volume of its lending activity. The findings of this study relating to operations during 1945, 1946, and 1947 are presented in this chapter, but the task of accumulating and analyzing cost data is so filled with technicalities affecting the final measures of costs and returns that the concepts and methods used in the analysis must be reviewed before the findings can be discussed.[1]

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[1] A more complete description of concepts and methods may be found in R. J. Saulnier, *Costs and Returns on Farm Mortgage Lending by Life Insurance Companies, 1945-1947* (National Bureau of Economic Research, Financial Research Program, 1949). The studies of urban and farm mortgage lending costs were made by exactly comparable methods.

METHODS OF MEASURING COSTS

In brief, the following is the method of measuring lending costs and returns employed in this study: (*a*) a company's gross urban mortgage income in a given year is expressed as a percentage of the amount of its average loan balance over that same year; (*b*) the amount of the company's operating costs is expressed similarly; and (*c*) the difference between the two, also expressed as a percentage of average loan balance, gives a measure of the net income earned on the mortgage loan portfolio during the year in question. Certain features of this procedure must be clarified before the results can be interpreted correctly.

First, the measure of yield which this method gives is a *present portfolio yield.* This contrasts sharply, but not irreconcilably, with a measure of *expected yield,* i.e., the yield expected over the future on one or a group of mortgages acquired at a given time on given conditions of income and cost. Much of the detailed knowledge acquired by studying present portfolio yield can be used in estimating expected yield, though the measures are quite different.

Second, in measuring present portfolio yield this study has treated both income and costs on the basis of cash, rather than accrual, accounting. In other words, in measuring the costs of acquiring loans in a given year, the cash, or current, accounting method includes all originating costs actually disbursed in that year; under the accrual method, on the other hand, originating costs are spread over the expected life of each loan. Thus, if a loan is expected to remain outstanding without reduction for five years, one-fifth of the loan's acquisition cost is charged against the yearly income. The income earned from mortgage loan investments is also charged each year, under the accrual method, with a share of the still-not-completely amortized acquisition costs of loans made in previous years.

Comparable problems are involved in the treatment of loan income. Under the cash method of cost accounting, the income of a given period is that income actually received during the period, notwithstanding that some of it might actually have been earned earlier or that another part of it might be a prepayment of income not to be earned until later. On the other hand, under the accrual method, the income of a given period is that income actually earned during the period, whether received during that time or earlier or to be received in the future.

There can be no doubt of the conceptual superiority of the accrual over the cash method of accounting, but the merits of the two approaches are reversed when tested for practicability. The accrual method presents very difficult problems in measuring costs and income for an investigation of the present type. While the accrual method requires that acquisition costs be spread over the expected life of a mortgage loan, whether they are met in the form of a "commission" paid to a correspondent, a "premium" paid in purchasing a loan, or expenses incurred in connection with the operation of home or branch offices, as a practical matter acquisition costs often cannot be separated from servicing costs. Even if acquisition costs could be isolated, the selection of an amortization schedule would be largely arbitrary, since the actual length of the period over which loan balances are outstanding is not necessarily constant from year to year, nor is it the same for different types of loans at a given point in time. Finally, the accrual approach would require companies to search their records for a number of years in order to take account of the income earned, and the expenses incurred, on loans made in earlier periods but still outstanding. So formidable is this difficulty that this investigation of necessity uses the cash method.

The primary disadvantage of the cash method is that the yield it gives fluctuates around the yield given by the accrual method, in accordance with the volume of new lending. The yield given by the cash method is lower in years of high lending activity and higher in years of low lending activity than the yield given by the accrual method, because the heavy volume of acquisition costs incurred in a year of active lending are charged wholly to that year. As long as the volume of lending activity fluctuates, therefore, fluctuations in lending costs, expressed as a percentage of loan investment, are inevitable. The significance of these facts is that the yields given by the cash accounting approach for 1945-47, when new lending was increasing rapidly, are lower than would be given by the accrual method.

Definitions of Terms

Certain terms used in the analysis of costs and returns require definition. The first is *loan investment,* or the "investment base," to which is related, in percentage terms, each of the elements of cost and income. A monthly or quarterly average of the amount of loans outstanding would have been desirable, but practical considerations necessitated a simple average of outstandings at the beginning and end of the year. Real estate sales contracts as well as loan balances are included in the investment base, but this is inconsequential since, for most companies, sales contracts are minor compared with the mortgage loan account. Although costs probably vary from one type of loan to another, it was impossible to obtain a reliable breakdown of costs among the different types of loans. The amount of loan investment, so defined, is also used as the independent variable in testing the relation between the level of lending costs and the scale of lending operations. In certain connections the *volume of loans made* is used as the independent variable, and in these cases loan volume refers exclusively to new loans and increases in outstanding balances.

Gross income, as used in this study, includes interest income received during a given year from mortgage loans, income from real estate sales contracts, and prepayment premiums; the two last named, however, are minor components of the whole. As far as possible, the object has been to make gross income reflect amounts actually paid by the mortgagors, and to this end income is reported before deduction from interest income of any fees that may be paid to correspondents or other outside agents. As a measure of gross portfolio return the gross income received in a period is expressed as a percentage of that period's loan investment. As such, it reflects contract interest rates on a whole congeries of loans made at different times in the past.

The first of the main categories of costs used in this study is *fees paid to correspondents and other outside agents.* In return for these fees the correspondent may perform two services—originate loans and service loan balances. If these two services were paid for individually, separate analyses of loan acquisition and loan servicing costs could be made. However, such is not the case. Sometimes loan servicing is partly remunerated by a relatively high acquisition fee, and in other cases loan acquisition is remunerated in part by a relatively high servicing fee.[2] The only practical basis for reporting costs was to ask respondents to distinguish between those fees paid *at the time of loan origination* (including premiums paid) and those paid on a *continuing basis.*

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[2] As a result the ratios of payments made at time of loan origination and fees paid on a continuing basis to the volume of loans made and of loan balances serviced, respectively, vary among companies and do not necessarily correspond to the rates that would be quoted for the separate services of loan origination and loan servicing.

The next category of expenses, *branch office city loan acquisition and servicing costs,* consists of all those yearly expenditures properly attributable to city lending activities. The allocation of costs is not difficult since the branch office activities are, in most cases, departmentalized. However, an effort was made in the analysis of 1945 costs to distinguish, within this total of branch office costs, those attributable to (1) loan acquisition, (2) loan servicing, and (3) the management of owned real estate. The breakdown between acquisition and servicing costs was dropped in the 1946 and 1947 schedules because most companies had difficulty in making this classification; real estate management costs were also excluded in these two years.

The final main category of lending costs consists of the *expenses of operating the home office city mortgage loan department and general administrative expenses.* Both types of expenses were reported on a cash accounting basis which referred exclusively to payments actually disbursed during the year. All direct costs of the home office city loan department, including salaries, space costs, heat, light, maintenance, travel, office supplies, etc., were included. Adjustments were requested if employees of the company were not engaged exclusively in city mortgage lending, and a prorating of costs was requested if the mortgage department received service from the legal department or some other division of the company. Under general administrative expenses, companies were asked to include only the expenses of the finance, or investment, committee of the directors. Since these committees ordinarily have authority over additional fields of investment, companies were requested to allocate to the city mortgage department an amount determined by applying to the committee's total expenses the percentage of the city mortgage loan investment at year end to the total investment for which the committee was responsible.

COVERAGE OF THE COST SURVEYS

Schedules for reporting lending costs incurred during 1945 were mailed to all 369 legal reserve life insurance companies in the United States in June 1946; similar schedules requesting cost data for 1946 and 1947 were sent out in the following two years to all life companies except those that had previously reported no activity in urban mortgage lending.[3] Cooperation was entirely voluntary, and nonresponse was heavy, particularly among small companies. But since larger companies do most of the mortgage lending, and because their response ratio was relatively high, the returns cover a sizable segment of total insurance company urban mortgage lending in each year. Of the seventy-one companies responding to the 1945 schedule, general use was made of twenty-three reports and detailed use of forty-eight. Fifty of the eighty-nine companies responding in 1946, and forty-four of the sixty-five companies responding in 1947 submitted nearly complete returns, while the reports of the remaining companies were, in each case, only partially complete and therefore less useful.[4]

Fifty-six of the companies responding in 1945 also returned schedules in 1946, and forty of these continued to report in the 1947 survey. These companies varied considerably, however, in the degree to which the schedules were completed from one year to the next. The differences from year to year in the number of reporting companies were most pronounced among companies with assets under $100 million. Of the forty companies in the United States that had assets over $100 million, twenty-eight reported in the 1945 survey. This group was increased in 1946 by one company with assets between $100 and $500 million, and in 1947 by one company with assets of over $1 billion.

The relative importance of the reporting companies among all life insurance companies holding urban mortgages is shown in Table 18. The companies reporting on the 1945, 1946, and 1947 surveys held roughly 65 percent of the admitted assets of all companies and about the same percentage of their urban mortgage holdings. As will be noted, the coverage of companies with admitted assets of $100 million and over was much better than the coverage of smaller companies.

[3] Copies of the schedules on which companies reported cost data for 1945 and 1946, and the 1946 instructions to cooperating companies, are reproduced in Appendix C. The 1947 schedule is not reproduced since it is identical with the one for 1946.

[4] Companies that submitted schedules so incomplete as to be of little value in the analysis and those that reported portfolios composed of a few small loans have not been included in the above-mentioned count.

TABLE 18 — RELATIVE IMPORTANCE OF REPORTING COMPANIES AMONG ALL LEGAL RESERVE LIFE INSURANCE COMPANIES HAVING AN URBAN MORTGAGE LOAN PORTFOLIO, 1945-47[a]

Total Admitted Assets (in millions)	*Number of Reporting Companies*	*Relative Importance of Reporting Companies Among All Companies*		
		Number of Companies	Total Admitted Assets	Urban Mortgage Holdings[b]
		1945		
Less than $1.0	2	5%	6%	5%
1.0 - 99.9	41	18	23	24
100.0 - 499.9	14	61	66	73
500.0 - 999.9	4	80	82	81
1,000 and over	10	83	65	65
Total	71	24%	63%	62%
		1946		
Less than $1.0	3	7%	9%	10%
1.0 - 99.9	57	23	43	43
100.0 - 499.9	15	65	70	79
500.0 - 999.9	4	80	82	82
1,000 and over	10	83	65	65
Total	89	27%	65%	66%
		1947		
Less than $1.0	0	0%	0%	0%
1.0 - 99.9	35	13	24	20
100.0 - 499.9	15	58	65	75
500.0 - 999.9	4	80	83	81
1,000 and over	11	92	77	79
Total	65	18%	71%	67%

[a] From *The Spectator Insurance Year Book* (1946, 1947, and 1948) and *Best's Life Insurance Reports, 1946.*

[b] Percentages for 1945 are based on urban mortgage holdings excluding real estate sales contracts; for 1946 and 1947 the basic data for all insurance companies exclude real estate sales contracts. Data for the National Bureau of Economic Research sample of insurance companies include real estate sales contracts. This discrepancy cannot be remedied but it is believed that it does not affect the results by more than two or three percentage points.

FINDINGS [5]

GROSS INCOME FROM URBAN MORTGAGE LOANS

Chart 5 shows that the gross income ratios of individual companies for 1945 concentrated somewhere between 4.25 and 4.75 percent of their loan investment; the corresponding ranges for 1946 and 1947 were somewhat lower—4.05 to 4.55 percent in 1946 and 3.85 to 4.35 percent in 1947. The decline from 1945 to 1947 in gross income ratios was particularly apparent among the companies with very large portfolios.[6]

A few general comments should be made on the distribution and level of these gross income ratios. First, the range of income variation is greatest among companies with small portfolios of urban mortgage loans.[7] To some extent this probably reflects less accurate and less standardized reporting of income by the small companies, but this may not account for the entire difference. A genuine difference no doubt does exist between the two groups of companies in the rates at which they extend credit. With few exceptions, small companies lend in more localized markets than do large companies and this alone suggests that they are more likely than large companies to make loans at relatively high or relatively low interest rates. Large portfolio

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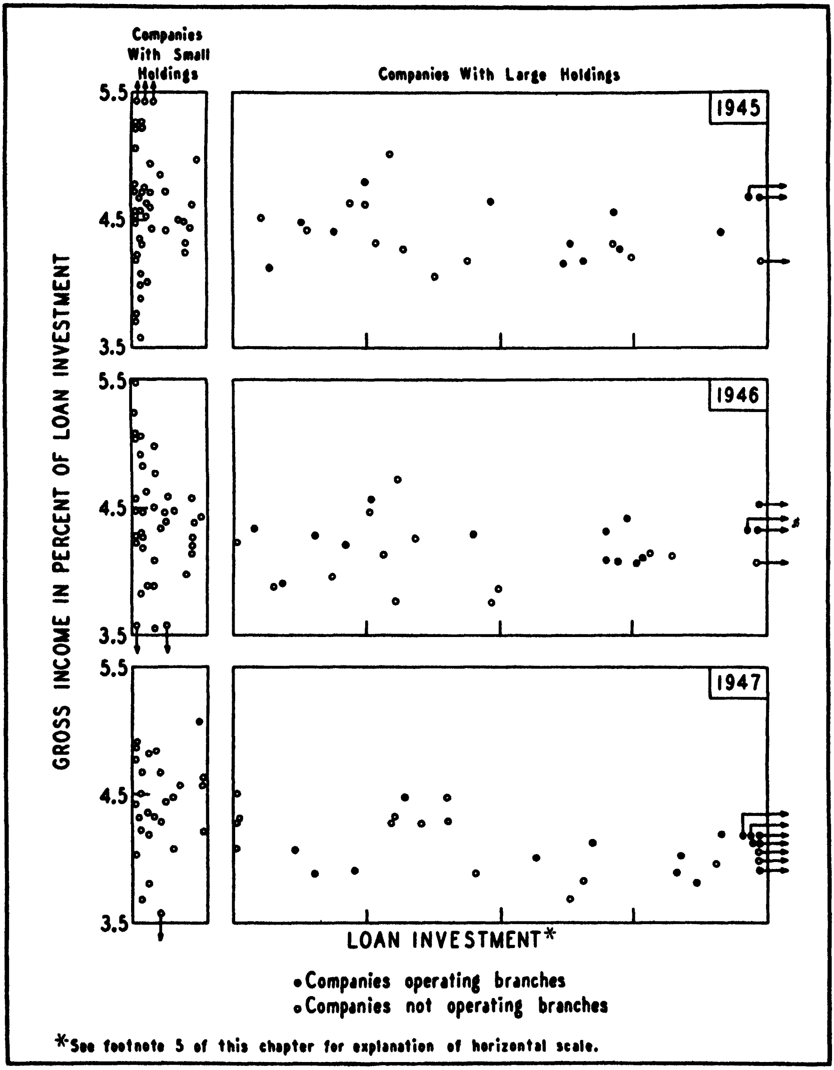
[5] An unorthodox but necessary procedure has been followed in this chapter in charting individual company data. Individual companies reported on the assurance that their cost data would be presented so that company identification would be impossible. Therefore, in this chapter notations of scale on the horizontal axis of all the charts showing loan investment, etc., were omitted because the observation referring to an individual company could in many cases be determined by reference to the amount of its loan portfolio, which is publicly available. However, to aid in interpreting Charts 5, 6, and 7, each chart is divided into two panels, representing small and large companies, and the base is marked off in equal ranges of portfolio size. This device enables the reader to judge with reasonable accuracy the relative positions of the individual observations, but the broken scale and omission of notations make it impossible to determine absolute portfolio amounts. On Charts 8 and 9, the horizontal axis is divided into equal ranges representing volume of new loans acquired through correspondents and loan balances serviced by correspondents, respectively.

[6] The 1946 and 1947 schedules do not separate the several types of income, i.e., interest income on loans, real estate sales contract income, and prepayment premiums. This breakdown of income was requested in 1945 and showed that, except in a very few cases, income from real estate sales contracts and prepayment premiums could be included with interest income on loans without greatly affecting gross income ratios. In 1945, income from prepayment premiums amounted, in forty-eight out of sixty-one cases, either to zero or less than 1.0 percent of total income; real estate sales contract income was likewise less than 1.0 percent of total income in 1945 in 73 percent of the cases for which it could be computed separately.

[7] The majority of companies with small mortgage portfolios are also small as measured by total assets, but the correlation is by no means perfect.

CHART 5 — Gross Income in Percent of Loan Investment Related to Amount of Loan Investment, 1945-47



*See footnote 5 of this chapter for explanation of horizontal scale.

The variation in gross income ratios was much greater among small than among large urban mortgage portfolios. Companies with small portfolios tended to have the highest average gross return.

companies, by virtue of the size and national scope of their operations, are more likely to follow a standardized lending pattern and, since all such companies operate in the same or broadly overlapping markets, their gross income ratios are almost certain to fall within a fairly narrow range. Also, the wide variation of gross income ratios for small companies may be partially accounted for by the fact that a single loan, if large enough, and if made at either a high or a low rate, can have a disproportionate influence on the average rate for a small portfolio; in a large company such a loan would be outweighed by the very large number and amount of loans made at standard rates.

Second, referring to the level of gross income rates, it will be noted in Chart 5 that while some small portfolio companies reported a lower gross income ratio than most of the large portfolio companies, the majority of the former reported ratios that were equal to, or higher than, those reported by the latter. The fact that the highest gross income ratios are found among the smaller companies is doubtless attributable to the less competitive market in which they operate, and to their relatively large investment in the smaller loans secured by residential properties.

In the three panels of Chart 5, and in the following charts of this chapter, the ratios of income and cost for individual companies are indicated by a dot (.) if the company operates branch offices and by a circle (o) if the company can be properly designated as "nonbranch." [8] No systematic difference would be expected between the two types of lending organizations with respect to gross income on loan portfolios, and the data bear this out. The distinction will be useful, however, in analyzing net income and cost differentials.

NET INCOME

During 1947 most of the individual reporting companies earned between 2.90 and 3.50 percent on their urban mortgage loan investment, a net income considerably lower than that earned in the two preceding years when the bulk of the reporting companies had net yields, after operating expenses, between 3.05 and 3.65 percent in 1946 and between 3.40 and 4.00 percent in 1945 (Chart 6). The net

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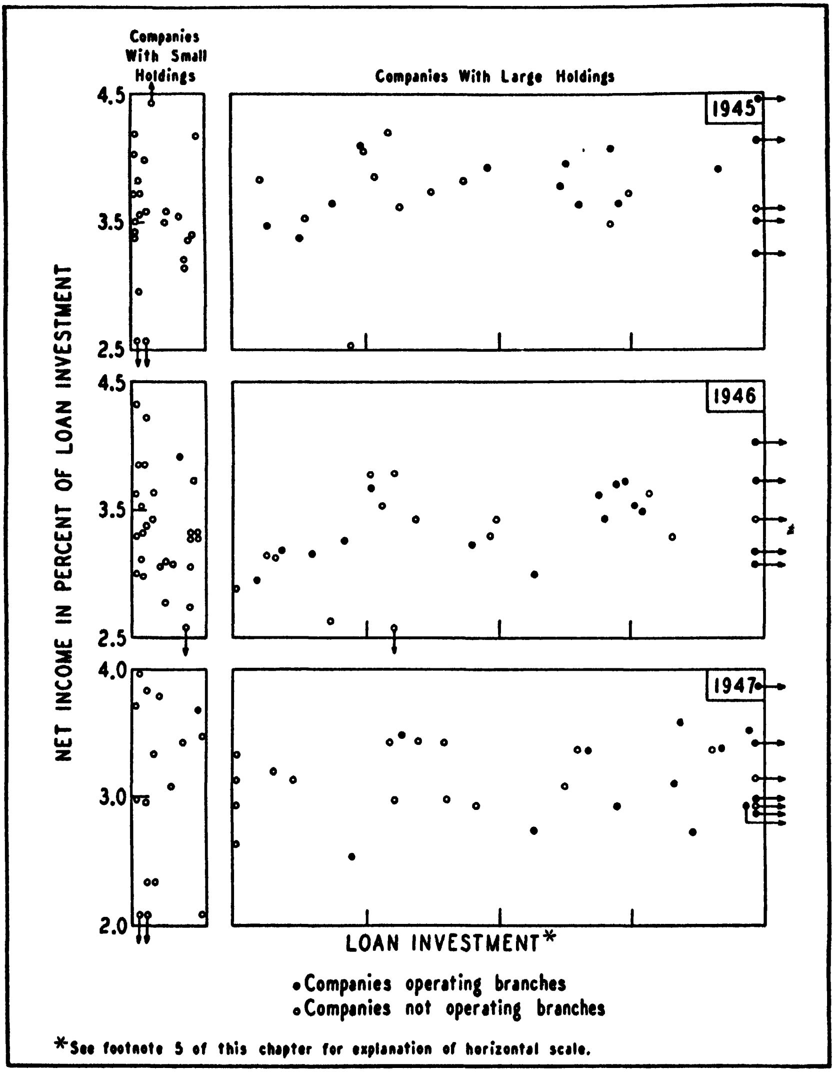
[8] All companies reporting any branch office expenses were classified as "branch" companies. Data on the proportion of business transacted by branches are not available for 1946 and 1947, but in 1945 only two out of sixteen companies had extensive branch office systems. The other fourteen companies had from one to ten branches each, and much of their loan origination and servicing was done through correspondents and other outside agents. Many of these agents, however, work through branch offices.

CHART 6 – NET INCOME IN PERCENT OF LOAN INVESTMENT RELATED TO AMOUNT OF LOAN INVESTMENT, 1945-47



*See footnote 5 of this chapter for explanation of horizontal scale.

Net income increased slightly as the size of the average loan investment increased. Net income ratios were somewhat lower in 1947 than in 1945, ranging between 2.90 and 3.50 percent for most companies in 1947 and 3.40 and 4.00 percent in 1945.

income ratios take account only of the costs of acquiring and servicing loans; no provision is made for the "cost of money" to the life insurance companies or for the potential losses inherent in all mortgage loan portfolios. Adjustments must be made for both of these factors if a completely "net" return is to be estimated.

The income ratios of reporting companies with very large portfolios fall within a wider range, that is, tend to be scattered more widely than their gross income ratios. In general, the gross income ratios for the companies with very large portfolios varied in all three years within about one-half percentage point; their net income ratios varied within about 0.95 percentage point in 1945 and 1946 and about 1.15 percentage points in 1947.

The fact that differences in gross income ratios for individual companies are not accompanied by proportionate differences in their total cost ratios explains the wider variations in net income ratios. This condition may be due to any one or more of several circumstances of which the following appear to be the most likely: a greater margin of error in estimating total costs than in reporting gross income; varying rates of new loan activity relative to loan investment among the reporting companies; a tendency for some companies to make loans of lower quality than others; and, finally, a tendency for the competitive character of the markets served to vary from one company to another. It would require considerably more data than are available in the present schedules to test the influence of these factors, or to discover others that might be of importance.[9]

There is some tendency, although it is not marked, for net income to be higher for companies having large amounts of urban mortgages than for those with relatively small portfolios.[10] It will be evident from Chart 6 that there are exceptions to this generalization, but it fits the facts more closely than any other. Finally, no systematic difference is apparent between the net income ratios of companies operating branches and the operating results of the nonbranch companies. The evidence suggests that variations among companies with respect to the net yield on their urban mortgage portfolios are to be sought in differences in the types of loans made, or in the skill with which company operations are administered, rather than in the general plan of operations.

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[9] The data do permit a testing of the hypothesis that net income differentials are due to inverse differences in loan turnover rates. While the length of the loan turnover period tends to fall as total cost ratios rise, the relation is not high, especially among the companies with the highest total cost ratios.

[10] The relation of net operating income to the average size of the individual loan balances that compose the various company portfolios was also studied. The facts are not altogether clear because the loan balances of most companies are about the same average size, but it appears that while the companies with large average individual loan balances did not have higher net income ratios than other companies, none had net income ratios as low as some of the companies with relatively small average individual loan balances.

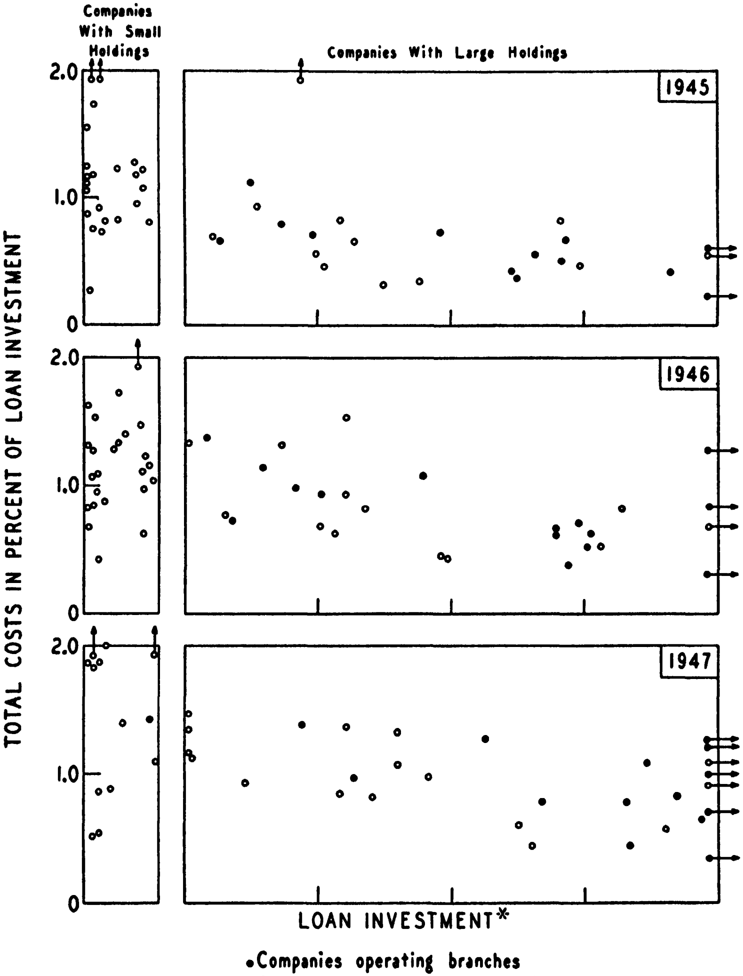
TOTAL COSTS

Data on total costs were reported by forty-eight companies in 1945, by fifty-two in 1946 and by forty-four in 1947; twenty-eight reported in all three years. Chart 7, which relates total costs to loan investment, shows, first, that the cost ratios of companies with small portfolios vary over a wider range than do those of companies having larger amounts of urban mortgage investments.

Second, in all three years the level of total costs decreases as average loan investment increases. For example, total costs ranged in 1945 between 0.70 and 1.30 percent of loan investment for most companies with small- and medium-sized loan portfolios, and were considerably lower—between 0.30 and 0.70 percent of loan investment—for companies with larger holdings of urban mortgage loans. The same downward regression of costs with portfolio size is also apparent in 1946 and 1947, although the general level of costs is somewhat higher in each of these years. The lower costs reported for large portfolios cannot be attributed entirely to the economies of large-scale operations, however, since the large portfolios are known to consist, in greater proportion than the small portfolios, of large loans on income-producing properties. Operating costs per dollar of investment on these loans are relatively low and, as pointed out in Chapter 4, the interest rate at which they are made is also low. Moreover, the interest return is apparently not so low as to counterbalance the relatively low level of operating costs, with the result that, as noted on Chart 6, large portfolio companies have a somewhat higher average net return than those with small portfolios.

Finally, it will be evident from Table 19, which presents weighted averages of total cost and of the elements of this total for portfolios of different sizes, and from the three panels of Chart 7, that the level of total costs increased considerably between 1945 and 1947. In-

CHART 7 – TOTAL COSTS IN PERCENT OF LOAN INVESTMENT RELATED TO AMOUNT OF LOAN INVESTMENT, 1945-47



*See footnote 5 of this chapter for explanation of horizontal scale.

Total operating cost ratios declined as loan portfolios increased in size.

TABLE 19 — INCOME AND COSTS IN PERCENT OF URBAN LOAN INVESTMENT FOR 35 COMPANIES, CLASSIFIED BY SIZE OF LOAN INVESTMENT, 1945-47 [a]

Income and Cost Items	*Year*	*Companies Not Operating Branches and Having Portfolios of*				*Companies Operating Branches and Having Portfolios of*	
		Under $5 Million	$5-$20 Million	$20-$100 Million	$100 Million and Over	$20-$100 Million	$100 Million and Over
Gross income	1947	[b]	4.38%	4.07%	3.99%	4.11%	4.12%
	1946	4.50%	4.34	4.08	4.10	4.37	4.36
	1945	4.61	4.49	4.42	4.20	4.66	4.54
Total costs	1947	[b]	1.34	.88	.93	1.21	.96
	1946	1.17	1.16	.80	.72	1.03	.67
	1945	1.50	1.11	.72	.59	.80	.50
Originating fees paid	1947	[b]	.56	.33	.30	.41	.26
	1946	.38	.39	.25	.13	.25	.09
	1945	.61	.39	.12	.06	.14	.04
Servicing fees paid	1947	[b]	.40	.26	.26	.26	.13
	1946	.35	.39	.25	.25	.26	.13
	1945	.34	.41	.26	.25	.27	.13
Branch office expenses	1947	[b]	.00	.00	.00	.22	.38
	1946	.00	.00	.00	.00	.20	.28
	1945	.00	.00	.00	.00	.08	.18
Home office expenses	1947	[b]	.38	.29	.37	.32	.19
	1946	.44	.38	.30	.34	.32	.17
	1945	.55	.31	.34	.29	.31	.15
Net income	1947	[b]	3.04	3.19	3.06	2.90	3.16
	1946	3.33	3.18	3.28	3.38	3.34	3.69
	1945	3.12	3.38	3.70	3.61	3.86	4.04
Number of reporting cos.		7	6	8	3	3	8

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[a] Averages of individual company ratios weighted by portfolio size. Ratios of individual companies are found in Appendix D; for example, the seven companies not operating branches and having portfolios under $5 million in 1945 and 1946 are Companies A through G in Appendix Tables D1 and D3, respectively.

[b] Comparable 1947 data were not available for the companies reporting in 1945 and 1946.

creases in total operating costs were shown in 1946 and again in 1947 by most of the twenty-two companies with portfolios of $20 million and over.[11] The percentage increases in this ratio for companies falling between the first and third quartiles ranged between 10 and 35 percent from 1945 to 1946 and between 10 and 25 percent from 1946 to 1947. Of the thirteen companies with portfolios under $20 million, seven showed increases in operating costs from 1945 to 1946. Cost data were available for only six of the thirteen small portfolio companies in 1947, but five of these showed an increase in costs in that year.

Elements of total cost

Although the total cost ratios reported by individual insurance companies vary within a fairly narrow range, particularly for companies within a given portfolio-size class, this is not true of the ratios of different elements of total cost to loan investment. The reason is that companies alike in size and type of portfolio may differ widely in organization; some may depend heavily on a branch office system and others may utilize a group of correspondents. Consequently, ratios of branch office expenses and originating and servicing fees to loan investment may vary widely from one company to another. Home office expenditures, on the other hand, are incurred by all companies, regardless of how they acquire and service their loans, and are the one component of total costs that appears to fall within a reasonably narrow range. According to the 1946 cost survey, the expenses of operating the home office urban mortgage loan department plus the general administrative expenses attributable to the mortgage department ranged between 0.30 and 0.70 percent of loan investment for small portfolio companies, was approximately 0.30 percent for middle-sized portfolio companies, and fell below 0.30 percent of loan investment for almost all large portfolio companies. Although some companies showed an increase in home office expenses from 1945 to 1947, the distribution of these expenses by portfolio size was approximately the same in 1945 and 1947 as that reported in 1946.

It is difficult to generalize concerning the level of branch operating costs. As indicated above, companies handle different proportions of their business through branches, and even organize their branch systems on different bases. The six companies listed in Appendix Table D4 with portfolios between $20 and $100 million had combined branch office costs in 1946 equaling 0.17 percent of their combined loan investment and the nine companies with portfolios of $100 million and over (all with more extensive branch operations) reported branch office expense ratios averaging 0.26 percent for the group. An inspection of this table will show, however, that four of the six companies with portfolios of from $20 to $100 million and five of the nine companies with portfolios of $100 million and over had branch office cost ratios of less than 0.10 percent. Although branch office expenses in percent of average loan investment increased from 1945 to 1947, the ratios continued to be below 0.10 percent for many of the companies in 1947.

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[11] One company reported a decline and two showed no change in operating costs in 1946 while only one company reported a decline in 1947. All the other companies showed increased operating costs relative to loan investment.

The best measure of the costs of originating loans through correspondents and other outside agents is the ratio of the amount of originating fees paid these agents in a given year to the amount of loans acquired through them during the year. Ratios computed on this basis are presented in Table 20 and are used also as the basis for Chart 8. As will be seen in Chart 8, most of the companies paid correspondents and other outside agents amounts that averaged between 0.75 and 1.50 percent on the volume of new business. The highest ratios were reported by companies acquiring the smallest volume of loans through correspondents; presumably these loans were of smaller average original size. The increase observed between 1945 and 1947 in the ratio of originating costs to average loan investment (Table 19) reflects primarily the fact that new loan volume increased considerably from 1945 to 1947.

Servicing fees paid to correspondents and other outside agents are best measured and compared by means of ratios of the amount of the fees paid to the amount of the loan balances so serviced (Table 20 and Chart 9). The majority of reporting companies paid their outside agents and correspondents between 0.30 and 0.60 percent on the amount of the serviced loan balances. Very little change appears to have occurred between 1945 and 1947 in the level of fees paid for loan servicing. Again, the widest variation in the level of servicing fees is found among companies with relatively small portfolios.

TABLE 20 — REPORTING COMPANIES CLASSIFIED BY ORIGINATING AND SERVICING FEES PAID TO CORRESPONDENTS, 1945-47

Commission Rate	*Number of Reporting Companies*		
	1945	1946	1947
Originating Fees Paid in Percent of Loans Originated by Correspondents			
Less than .25%	3	1	0
.25 - .49	3	5	1
.50 - .74	4	5	3
.75 - .99	7	13	5
1.00 - 1.24	7	14	15
1.25 - 1.49	6	15	5
1.50 - 1.74	3	4	6
1.75 - 1.99	4	8	1
2.00 and over	4	5	8
Total	41	70	44
Servicing Fees Paid in Percent of Loans Serviced by Correspondents			
Less than .20%	5	6	0
.20 - .29	1	3	5
.30 - .39	8	14	16
.40 - .49	9	15	15
.50 - .59	12	11	4
.60 - .69	6	4	1
.70 and over	2	3	1
Total	43	56	42

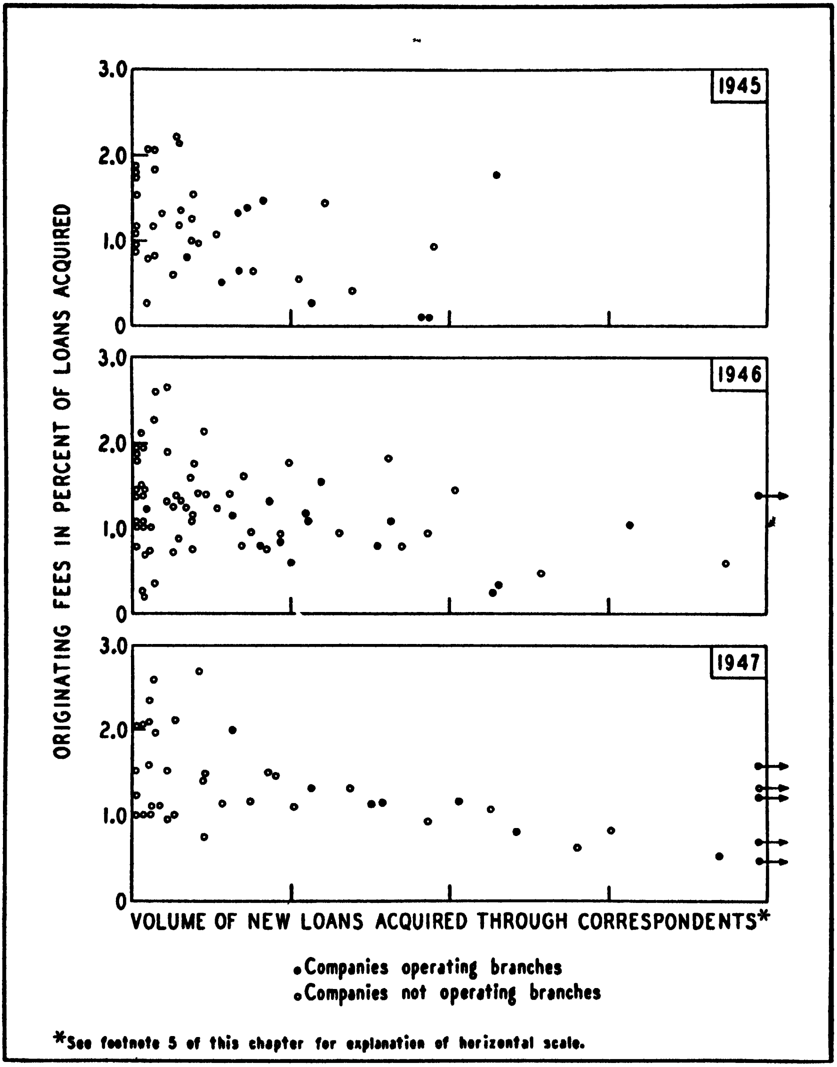
TURNOVER OF LOAN BALANCES

Among the factors causing relatively high operating costs in recent years has been the high rate of loan turnover. Loan balances were being retired in 1946 (Table 21) at a rate that meant that the outstandings of about 80 percent of the reporting companies would be turned over completely in a period ranging from three to seven years. This, however, was a somewhat more rapid rate than prevailed in either 1945 or 1947.

EXPECTED YIELD

On the basis of the income and cost information presented above, the expected yield on urban mortgage loans may be calculated according to the method discussed in earlier sections of this chapter. Suppose

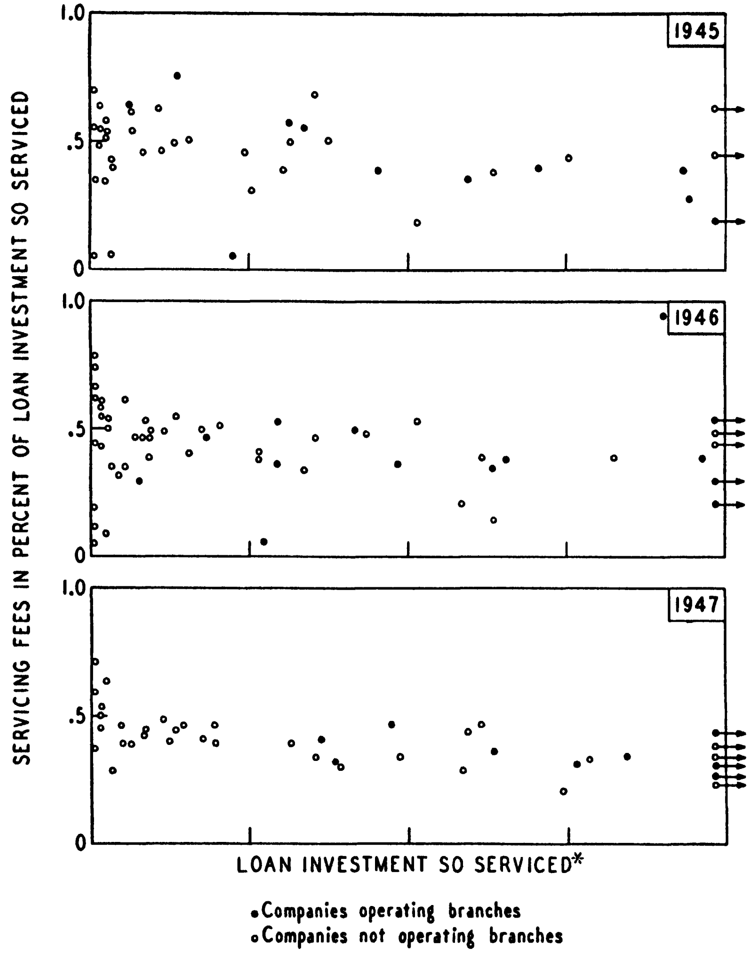
CHART 8 — Originating Fees Paid in Percent of Loans Acquired Through Fee Payments Related to the Volume of Loans so Acquired, 1945-47



*See footnote 5 of this chapter for explanation of horizontal scale.

Most companies paid correspondents fees ranging between 0.75 and 1.50 percent of the volume of new loans so originated.

CHART 9 – SERVICING FEES PAID IN PERCENT OF LOANS SERVICED RELATED TO THE VOLUME OF LOANS SO SERVICED, 1945-47



*See footnote 5 of this chapter for explanation of horizontal scale.

For most companies, servicing fees paid correspondents were between 0.30 and 0.60 percent of loan investment so serviced in the three years 1945-47.

TABLE 21 – REPORTING COMPANIES CLASSIFIED BY THE TURNOVER PERIODS OF THEIR URBAN MORTGAGE LOAN PORTFOLIOS, 1945-47 *

Turnover Periods (years)	*Number of Reporting Companies*		
	1945	1946	1947
2 – 3	8	6	3
3 – 4	13	14	7
4 – 5	10	27	10
5 – 6	18	20	19
6 – 7	13	12	8
7 – 8	4	1	12
8 and over	9	9	6
Total	75	89	65

* The turnover period is the number of years which, at a given time, would be required for loan balances to be fully retired if repayments were to continue at an unchanged rate. The period is calculated as the average loan balance divided by repayments. Repayments equal loans outstanding at the beginning of the year less loans outstanding at the end of the year plus new loans made (including additional amounts advanced on outstanding balances).

that unamortized loans are being acquired at rates averaging 4.00 percent, that finders' fees of 1.10 percent of the original amount of the loans, and servicing fees of 0.45 percent of the outstanding loan balances are being paid to the correspondents. Suppose further that 0.25 percent is an adequate charge against the loan balance to cover home office administrative expenses. Then, if, as suggested by our data on loan turnover periods, the loans may be expected to remain outstanding for five years, 0.22 percent must currently be charged against income to amortize the origination fee. This charge, added to the charges for servicing and home office expenses, will give an expected net yield of 3.08 percent.

The final question deals with the necessary allowance to cover the expected loss on mortgage loans. Even a loss reserve built up at the rate of one-fourth of 1 percent of the loan balance per annum would, in the example above, reduce the expected yield on urban mortgage portfolios well below 3.00 percent. The amount of this loss reserve, however, must be determined by an analysis of the complex conditions that influence loan defaults and investment losses. It is to this type of analysis that we turn in the next and final chapter.

CHAPTER 6

Urban Mortgage Loan Experience of Life Insurance Companies, 1920-46

In many respects the most important question of the present investigation concerns the experience of life insurance companies with their investments in urban mortgage loans. What proportion of the loans composing their portfolios became delinquent under different economic conditions? What proportion was foreclosed? How did foreclosure rates differ among different types of loans? What was the experience, as measured by the amount gained or lost, on the operation and disposal of different types of property? Considering all relevant occurrences from the time cash was invested in a given mortgage until it was withdrawn, either through repayment or sale of the loan or disposal of the foreclosed property, what was the realized yield on loans of different characteristics, and how did this yield compare with the yield expected when the loans were made? What do the differences between expected and realized yields mean in terms of the amounts that must be taken from portfolio income in order to build up reserves adequate to absorb mortgage losses? And how do these reserve requirements differ among different broad types of loans? The several sections of this chapter treat the aforementioned questions in the order of their listing.

MORTGAGE LOAN DELINQUENCY AND THE ACCUMULATION OF FORECLOSED PROPERTY

The rapid rise in 1933 in the amount of delinquent urban mortgage loan contracts is shown in Chart 10, in which data are given for ten leading life insurance companies.[1] Comparable data are not available

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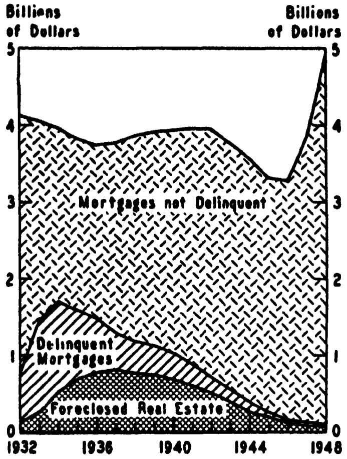
[1] Data are from the companies' annual reports to their state supervisory authorities. Delinquent mortgages are defined, in general, as those on which interest is overdue more than three months, on which the time for interest payment has been extended, or on which taxes, assessments or other liens are overdue (by more than two years from 1933 to 1941 and by more than one year from 1929 to 1932 and after 1941).

The ten companies accounted for 70 percent of all life company assets in 1930 and 1940, and 70 and 63 percent of the urban mortgage holdings of all companies in 1930 and 1940, respectively.

CHART 10 — URBAN MORTGAGE LOANS AND FORECLOSED REAL ESTATE HELD BY 10 LARGE LIFE INSURANCE COMPANIES, AT YEAR ENDS, 1932-48



Source: Annual reports of life insurance companies to state supervisory authorities.

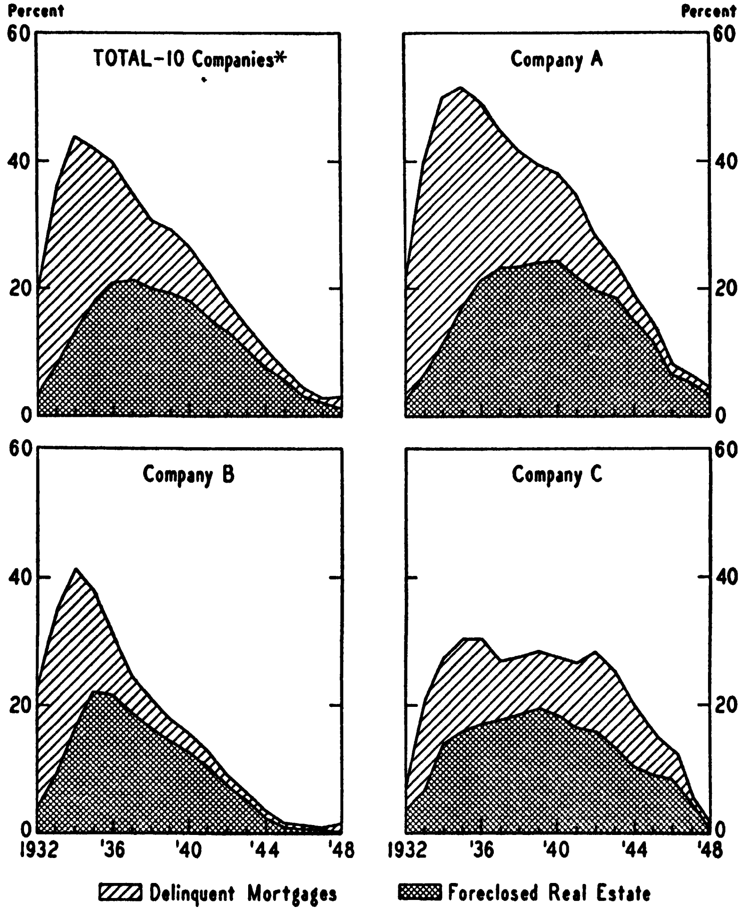
The amount of delinquent urban loans rose sharply through 1934. A large part of the decline in the two following years was due to the transfer of loans to the owned real estate account, which increased through 1937 and was not greatly reduced until the early war years.

for earlier years so that the low point of loan delinquency from which this rise began is not known. However, it is known that the proportion of foreclosed real estate to total loan and real estate investment for these companies rose from 0.3 percent at the end of 1929 to 3.4 percent at the close of 1932. This suggests that as few as 5 percent of the loans were delinquent in 1929. By the end of 1932 the proportion of delinquent loans to total loan and real estate investment for these ten companies had risen to 16 percent, and by the end of 1934 nearly one-third of their combined urban mortgage loan portfolios was delinquent (Chart 11).

These facts are important for two reasons: first, because a large majority of delinquent loans are eventually foreclosed and, second, because the cost of servicing a loan portfolio is considerably increased by loan delinquency. The net yield on the portfolio is reduced by an amount that depends on the extent of delinquency and on the costs incurred in servicing delinquent loans. This may be a charge on income as burdensome as that of accumulating reserves for losses, although the burden of the cost will vary, as the extent of delinquency changes.

Differences among companies in the rate of loan delinquency in the early thirties and in the rate of increase in owned real estate are shown in Chart 11. Naturally, there were individual differences but the three illustrative cases depict the main types of company expe-

CHART 11 — DELINQUENT URBAN MORTGAGE LOANS AND FORECLOSED URBAN REAL ESTATE IN PERCENT OF TOTAL URBAN MORTGAGE LOAN AND REAL ESTATE INVESTMENT FOR 10 LARGE LIFE INSURANCE COMPANIES, AT YEAR ENDS, 1932-48



*Includes Companies A, B, and C.

Source: Annual reports of life insurance companies to state supervisory authorities.

In the early thirties most companies experienced a sharp rise in the proportion of their real estate investment held as delinquent mortgages and foreclosed properties. Companies differed, however, as to the timing of real estate sales, depending mainly on company policy and on the type of property held.

rience. There was no great difference among companies in the early thirties as to the rate of increase in the proportion of delinquent loans or owned real estate to total loan and real estate investment. However, Company C, which dealt much more heavily in income-producing properties than either A or B, continued after 1936 to hold about the same proportion of delinquent loans and owned real estate to total investment, whereas the composition of other companies' portfolios altered quite rapidly. Whether this was an advantage will be discussed below, where differences in the profit or loss on the disposal of properties sold in different years and held for different periods of time will be compared.

FORECLOSURE RATES

The rapid increase in loan delinquency, which began in the early thirties, soon transformed large segments of the urban mortgage holdings of life insurance companies into owned real estate. But not all types of loans were foreclosed with the same relative frequency, and it is pertinent to inquire which groups of loans had the best, and which the worst, records in this respect. To give quantitative expression to these differences in loan experience, the sample of urban mortgage loans was classified according to relevant characteristics of the loan contracts and of the properties securing them and ratios of the number and original amount of foreclosed loans to the total number and amount of loans, referred to as foreclosure rates, were calculated for the several classifications.[2]

The outstanding factor affecting foreclosure rates appears to have been the year of loan origination, with foreclosure rates highest on loans made in years of high real estate prices and construction activity and lowest on loans made under the opposite conditions. This rate difference arises because, in an economy characterized by economic fluctuations, loans made in a period of expansion, particularly when marked by high real estate prices, are adversely affected in the following period of contraction when the mortgagor's income and the value of the underlying security decline. Loans made in the trough of a depression, on the other hand, are more likely to be repaid according to contract in the following period of rising income and property values.

[2] See Chapter 4, pp. 49-57, for a description of the loan sample.

This conclusion is adequately supported by the experience on loans made before 1932. Foreclosure rates on both one- to four-family dwellings and on income-producing properties rose from less than 5 percent of the number of loans made in the early twenties to 25 percent of the loans made during the real estate expansion of the late twenties (Table 22). Loans made after 1931 have had relatively low foreclosure rates, because most of them were made in years that were followed by higher levels of real estate activity and consumer income. Those made in more recent years had not, by 1946, been outstanding long enough to provide a real test of the borrower's ability to repay according to contract.

Another important aspect of mortgage loan experience is the relation of loan amortization provisions to foreclosure rates. When measured as a percentage of the number of loans made, foreclosures were considerably heavier on nonamortized loans made before 1935 than on those providing for full or partial amortization by maturity (Table 23). This differential experience is particularly evident on loans made in the period 1920-24, suggesting that amortization provisions are of most importance on loans made sufficiently long before a period of mortgage distress to permit repayments to reduce the principal substantially. Fully amortized loans continued to have a more favorable experience than nonamortized loans in the 1925-29 period, but the foreclosure rate on fully amortized loans in this period was about as high as the foreclosure rate on nonamortized loans in the previous period.

The effect of amortization of loans on one- to four-family properties was about the same in 1930-34 as in 1925-29. Evidence on foreclosure experience of income-producing properties for 1930-34 is, however, not conclusive since the sample contains only two fully amortized loans and fourteen nonamortized loans from which to derive foreclosure rates. In the periods subsequent to 1930-34 differences in foreclosure experience by type of amortization provision are of dubious meaning since the loans have not been outstanding long enough for the final history of most of them to be known.

Loans secured by single family homes and by nonresidential, income-producing properties have had a notably better record of repayment than loans secured by other property types for the 1920-46 period (Table 24). Since this differential experience may be attrib-

TABLE 22 – FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND YEAR MADE, 1920-46[a]

(dollar figures in thousands)

Year Made	1-4 Family Dwellings				All Other Property			
	Loans Made		*Foreclosure Rate*[b]		*Loans Made*		*Foreclosure Rate*[b]	
	No.	Orig. Amt.	No.	Amt.	No.	Orig. Amt.	No.	Amt.
1920	73	$382	2.7%	6.2%	13	$742	15.4%	6.1%
1921	119	451	1.7	4.9	16	705	6.3	1.4
1922	170	656	2.4	3.2	22	1,256	9.1	9.2
1923	209	1,001	5.7	7.9	29	1,257	3.4	.6
1924	280	1,291	8.9	12.0	38	1,642	13.2	15.3
1920-24	*851*	*3,781*	*5.3*	*8.0*	*118*	*5,602*	*9.3*	*7.6*
1925	359	1,832	13.4	15.0	42	2,624	16.7	10.3
1926	479	2,510	18.0	19.6	50	3,779	18.0	46.9
1927	414	2,445	22.2	21.8	44	3,761	36.4	45.6
1928	411	2,165	24.1	28.5	47	3,851	36.2	32.4
1929	398	2,117	26.4	29.6	56	2,745	26.8	29.6
1925-29	*2,061*	*11,069*	*20.9*	*23.0*	*239*	*16,760*	*26.8*	*34.7*
1930	348	1,884	20.4	22.0	27	1,208	18.5	16.1
1931	301	1,792	19.3	23.9	16	683	12.5	3.5
1932	103	512	9.7	16.7	7	696	9.1	2.1
1933	24	105	.0	.0	1	17		
1934	33	154	6.1	5.2	3	85		
1930-34	*809*	*4,447*	*17.4*	*21.1*	*54*	*2,689*	*14.8*	*8.8*
1935	88	468	3.4	3.4	19	1,965	.0	.0
1936	202	1,080	2.0	2.5	23	1,694	.0	.0
1937	252	1,432	1.6	1.8	25	2,484	.0	.0
1938	298	1,730	2.0	1.7	33	1,449	3.0	2.8
1939	337	1,815	1.2	1.9	39	1,376	.0	.0
1935-39	*1,177*	*6,525*	*1.8*	*2.0*	*139*	*8,968*	*.7*	*.4*
1940	447	2,246	.4	.4	38	3,238	5.3	.7
1941	647	3,338	.2	.1	51	2,210	.0	.0
1942	670	3,228	.4	.3	31	1,548	.0	.0
1943	508	2,342	.4	.4	22	1,704	.0	.0
1944	325	1,651	.0	.0	26	2,061	.0	.0
1945	254	1,349	.0	.0	27	1,715	.0	.0
1946[c]	392	2,338	.0	.0	29	3,258	.0	.0
1940-46[c]	*3,243*	*16,492*	*.2*	*.2*	*224*	*15,734*	*.9*	*.1*
1920-46[c]	8,157	$42,388	7.9%	9.3%	774	$49,753	11.1%	13.1%

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes sixteen loans on one- to four-family dwellings for which period made was not available.

[b] Foreclosure rates equal the number and original amount of loans made in a given year and eventually foreclosed as a percent of the number and original amount of all loans made in that year.

[c] Includes seventy-three loans made in 1947.

TABLE 23 – Foreclosure Rates on a Sample of Urban Mortgage Loans Made by 24 Leading Life Insurance Companies, Classified by Type of Property, Period Made, and Type of Loan, 1920-46[a]

(dollar figures in thousands)

Period Made and Type of Loan	1-4 Family Dwellings				All Other Property			
	Loans Made		Foreclosure Rate[b]		Loans Made		Foreclosure Rate[b]	
	No.	Orig. Amt.	No.	Amt.	No.	Orig. Amt.	No.	Amt.
1920-24								
Fully amortized	234	$807	1.3%	2.8%	2	$33	8.7%	8.3%
Partially amortized	478	2,222	5.0	7.5	90	4,198		
Nonamortized	138	745	13.0	15.0	24	1,350	12.5	5.7
1925-29								
Fully amortized	390	1,587	11.8	12.2	15	1,043	13.3	6.9
Partially amortized	1,212	6,808	22.3	24.6	158	10,737	30.4	38.3
Nonamortized	457	2,667	24.9	25.6	66	4,980	21.2	32.7
1930-34								
Fully amortized	270	1,176	15.9	17.8	2	22	18.0	14.8
Partially amortized	407	2,347	16.0	19.0	37	1,433		
Nonamortized	131	894	24.4	28.1	14	1,229	7.1	1.6
1935-39								
Fully amortized	529	3,080	.9	1.6	31	819	.0	.0
Partially amortized	244	1,371	5.3	4.8	95	6,609	.0	.0
Nonamortized	20	141	.0	.0	7	218	d	d
Insured[c]	383	1,927	.8	.9	5	1,072	d	d
1940-46								
Fully amortized	1,028	6,103	.3	.2	112	6,049	.9	.2
Partially amortized	95	572	.0	.0	93	8,144	1.1	.1
Nonamortized	12	141	.0	.0	6	395	d	d
Insured[c]	2,100	9,639	.2	.2	9	1,108	d	d

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes thirty-seven loans for which loan type or period made was not known.

[b] Foreclosure rates equal the number and original amount of loans made in a given year and eventually foreclosed as a percent of the number and original amount of all loans made in that year.

[c] Insured loans include loans insured by the Federal Housing Administration in 1935-39 and 1940-46 as well as loans insured by the Veterans' Administration in 1940-46.

[d] Ratios not given because the sample includes less than ten loans in each of these groups.

utable to the fact that a higher proportion of the loans secured by single family dwellings and nonresidential, income-producing properties than of those secured by other property types were made after 1932, and, therefore, benefited from the relatively favorable eco-

TABLE 24 – FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, 1920-29 AND 1920-46[a]

(dollar figures in thousands)

Type of Property	1920-29				1920-46			
	Loans Made		*Foreclosure Rate*[b]		*Loans Made*		*Foreclosure Rate*[b]	
	No.	Orig. Amt.	No.	Amt.	No.	Orig. Amt.	No.	Amt.
1-4 Family Dwellings	2,912	$14,849	16.3%	19.2%	8,157	$42,388	7.9%	9.3%
1 family[c]	2,569	11,811	14.6	17.3	7,551	37,347	7.0	7.8
2-4 family[c]	310	2,396	29.0	29.2	555	4,133	19.5	21.7
1-4 family with business use	33	642	27.3	16.9	51	908	21.6	15.9
All Other Property	357	22,362	21.0	27.9	774	49,753	11.1	13.1
Apartments	193	10,595	25.4	37.4	410	25,351	13.4	16.4
Other income property including stores	164	11,767	15.9	19.4	364	24,402	8.5	9.7
Total	3,269	$37,211	16.8%	24.4%	8,931	$92,141	8.2%	11.4%

[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Foreclosure rates equal the number and original amount of loans made in a given year and eventually foreclosed as a percent of the number and original amount of all loans made in that year.

[c] With no business use.

nomic circumstances that followed that date, analyses have also been made of those loans made from 1920 through 1929. For this period, also, the same two property types were superior.

It may be asked whether foreclosure experience is affected by the location of the mortgaged property. In general the effect seems most evident on loans secured by one- to four-family dwellings. For loans made in the period 1920-29 on properties of this type, those located in the largest metropolitan districts and in the largest cities had higher foreclosure rates than those located in small metropolitan, or non-metropolitan districts, or those in smaller cities (Table 25). A similar tendency is shown when the data are classified according to census region. Loans secured by one- to four-family properties located in the more highly industrialized regions—New England, the Middle Atlantic states, and the East North Central states—had a higher proportion of foreclosures than loans secured by properties located in the South Atlantic and South Central states, and even

TABLE 25 – FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION, 1920-29[a]

(dollar figures in thousands)

	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
GEOGRAPHIC LOCATION	*Loans Made*		*Foreclosure Rate*[b]		*Loans Made*		*Foreclosure Rate*[b]	
	No.	Orig. Amt.	No.	Amt.	No.	Orig. Amt.	No.	Amt.
CENSUS REGION[c]								
New England	52	$307	28.8%	28.1%	5	$312	29.6%	38.2%
Middle Atlantic	554	3,549	27.3	27.2	76	8,991		
East No. Central	646	3,525	21.7	24.1	86	5,876	22.1	13.2
West No. Central	377	1,670	5.8	8.3	63	2,274	15.9	14.0
So. Atlantic	364	1,845	10.1	12.6	38	1,589	7.9	27.9
East So. Central	251	1,100	17.9	19.8	16	328	12.5	11.5
West So. Central	123	540	11.4	15.6	23	959	21.7	32.7
Mountain	71	256	7.0	8.1	10	289	.0	.0
Pacific	473	2,045	9.5	11.7	39	1,735	28.2	45.4
SIZE OF CITY[d]								
1,000,000 and over	541	3,182	24.4	24.2	87	8,843	20.7	32.3
500,000 - 999,999	145	1,045	14.5	15.1	35	2,596	25.7	37.5
250,000 - 499,999	725	3,506	14.8	18.2	111	5,054	18.0	15.3
100,000 - 249,999	512	2,311	12.5	15.8	56	2,493	21.4	29.1
25,000 - 99,999	550	2,578	14.0	17.4	42	2,578	21.4	27.6
10,000 - 24,999	246	1,174	14.2	17.7	21	642	24.0	24.6
Under 10,000	186	996	19.4	22.9	4	148		
SIZE OF DISTRICT[d]								
Metropolitan	*2,580*	*13,420*	*16.9*	*19.6*	*329*	*21,465*	*21.0*	*28.1*
1,000,000 and over	1,004	5,946	22.1	24.0	146	12,974	25.3	31.9
250,000 - 999,999	957	4,849	15.0	17.8	137	6,576	19.0	19.0
100,000 - 249,999	497	2,142	10.9	12.6	42	1,523	13.0	33.2
50,000 - 99,999	122	482	12.3	13.8	4	392		
Non-Metropolitan	*332*	*1,430*	*12.0*	*15.4*	*28*	*897*	*21.4*	*23.3*
Total	2,912	$14,849	16.3%	19.2%	357	$22,362	21.0%	27.9%

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[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes a few loans for which property location was unknown.

[b] Foreclosure rates equal the number and original amount of loans made in a given year and eventually foreclosed as a percent of the number and original amount of all loans made in that year.

[c] For a listing of states included in each of the census regions, see footnote 3 of Chapter 4.

[d] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

higher foreclosure rates than loans secured by properties in areas to the north and west. On loans secured by other property types, there seems to be little or no relation between foreclosure rates and geographic location. However, this lack of definite relation may result partly from the smallness of the sample under consideration.

Finally, foreclosure experience on loans made between 1920 and 1929 appears to have been affected by certain characteristics of the loan contracts. The amount of the original loan and the relation of this amount to the appraised value of the property are significantly related to foreclosure experience (Table 26). In general, whether secured by one- to four-family dwellings or other types of property, loans of small original amount and those with low ratios of loan amount to property value had the lowest foreclosure rates. The interest rate carried by the loan and the maturity of the contract seemed to have no effect on foreclosure experience.

GAIN OR LOSS ON FORECLOSED PROPERTIES

Another aspect of mortgage loan experience concerns the extent of the gains or losses involved in the acquisition, operation, and disposal of foreclosed properties. As in the analysis of foreclosure rates, comparisons of this measure of investment experience may be made for different types of loans and for different classes of properties. There are several measures of gain or loss experience, but in this analysis only two have been utilized, namely, the ratio of the amount of the gain or loss to the amount of the original loan balance and to the amount of the lender's investment at the time of foreclosure.[8] The amount of gain or loss was calculated as the difference between the lender's investment in the loan at the time of foreclosure and the sum of (1) the proceeds of deficiency judgments, if any, (2) the net income from operation of the property, and (3) the net proceeds of the property sale. The lender's investment was defined as the sum of (1) the unpaid balance at foreclosure, (2) the amounts paid out by the mortgagee in taxes, insurance, etc., prior to foreclosure, provided these amounts had not been capitalized into the loan balance, (3) the interest delinquent at time of transfer to real estate, and (4) the foreclosure costs.

Considering all foreclosed properties without regard to the period

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[8] Data for the analysis of gain or loss are from Schedule K of the mortgage loan experience card, a facsimile of which is given in Appendix A.

TABLE 26 – FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS, 1920-29 [a]

(dollar figures in thousands)

CONTRACT TERMS	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
	Loans Made		*Foreclosure Rate* [b]		*Loans Made*		*Foreclosure Rate* [b]	
	No.	Orig. Amt.	No.	Amt.	No.	Orig. Amt.	No.	Amt.
CONTRACT INTEREST RATE								
5.0% [c]	4	$26	13.0%	12.4%	16	$3,855	18.8%	24.0%
5.1 – 5.9	574	3,672			153	10,638	19.6	25.1
6.0	2,154	10,400	17.4	21.6	168	7,120	23.8	36.9
6.1 – 6.9	99	412	15.2	18.4	9	481	10.0	33.4
7.0 and over	77	323	13.0	21.0	11	268		
CONTRACT LENGTH								
0 – 4 years	580	3,247	20.9	21.6	46	3,415	17.4	25.6
5 – 9	1,486	7,767	16.9	20.4	220	11,776	20.0	32.0
10 – 14	754	3,316	10.6	13.5	76	5,625	27.6	27.3
15 – 19 [d]	89	504	25.8	22.6	12	1,520	16.7	4.7
ORIGINAL LOAN AMOUNT								
Less than $5,000	1,825	5,877	12.2	13.3	11	38	9.1	11.9
5,000 – 9,999	863	5,624	23.2	24.3	44	318	15.9	17.0
10,000 – 19,999	201	2,420	24.4	25.4	64	921	12.5	13.1
20,000 – 49,999	17	408	23.5	20.8	125	3,706	26.4	28.3
50,000 – 99,999	4	270	.0	.0	51	3,489	21.6	20.9
100,000 and over	2	250			62	13,890	24.2	30.8
LOAN-TO-VALUE RATIO [e]								
0 – 39%	242	1,170	9.5	17.1	71	4,013	7.0	2.3
40 – 79 [f]	2,258	12,241	18.6	20.6	286	18,349	24.5	33.5

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[a] Based on a 1 percent sample of all loans made after January 1, 1920. In most cases, excludes a few loans for which necessary data were not available.

[b] Foreclosure rates equal the number and original amount of loans made in a given year and eventually foreclosed as a percent of the number and original amount of all loans made in that year.

[c] Includes one loan on an income-producing property that was made at 4 percent.

[d] Includes six loans on one- to four-family dwellings and three loans on income-producing properties that were made with contract lengths of twenty years and over.

[e] Excludes 412 loans made on one- to four-family dwellings for which loan-to-value ratio was unknown.

[f] Includes three loans on one- to four-family dwellings and four loans on income-producing properties which had loan-to-value ratios of 80 percent and over.

in which the original loans were made, the period during which the properties were acquired or sold, or the characteristics of the loans or properties involved, losses averaged slightly over 10 percent of the original amount loaned and of the lender's investment at foreclosure.[4] Some differences are apparent, however, in the experience with disposal of one- to four-family dwellings resulting from loans made, and properties sold, in different periods. Table 27 shows that the losses sustained on properties acquired from mortgage loans made on one- to four-family dwellings in the 1925-29 period were twice as high, proportionately, as the losses sustained on properties acquired from foreclosure of loans made in 1920-24, but somewhat lower than the losses experienced on properties acquired under loans made in 1930-34.

Table 27 also shows that losses on loans made in 1925-34 on one- to four-family dwellings were heaviest on those property transactions in which the disposal of the property occurred in the period 1940-46 and least on those property transactions completed in the period 1930-34. This heavier loss in the 1940-46 period probably reflects the fact that the most attractive dwellings found a ready market in 1930-34; those not sold until 1940-46 were probably the least readily marketable. While it is obvious that a property disposable in 1930-34 or in 1935-39 at a profit or at a small loss could be sold more favorably in the period 1940-47, this does not mean that the companies that disposed of foreclosed real estate relatively late had a better record than those that sold properties in the early or middle thirties. The companies whose owned real estate account continued high in the forties appear to have been holding properties that were disposed of at relatively large losses even under more favorable market conditions. This discussion of losses by period of loan origination has necessarily been confined to loans on one- to four-family dwellings, since experience on all other properties is available for only eighty-four loans, and sixty-two of these were originated in 1925-29.

Again, referring solely to a single characteristic of the transaction under consideration, it may be asked how losses have compared on

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[4] For properties acquired from mortgage loans made in the 1920-46 period, the lender's investment at time of foreclosure was about 8 percent greater than the original amount of the loans that went to foreclosure (Appendix Table B8). This circumstance can be caused by the advance of additional funds subsequent to a loan's original making, by the addition to the loan balance of unpaid interest, taxes, and insurance, and by the capitalization of foreclosure costs. These conditions separately, or in concert, can offset payments on principal. On fully amortized loans made in 1920-24 and 1925-29 on one- to four-family dwellings, the lender's investment at foreclosure was less than the original amount, indicating that amortization payments on those loans had been large enough at least to offset foreclosure costs. On nonamortized loans made in 1920-24, the lender's investment was also less than the original amount loaned, but in the 1925-29 and 1930-34 periods, the lender's investment exceeded the original loan amount.

TABLE 27 – GAIN OR LOSS ON DISPOSAL OF FORECLOSED PROPERTIES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD OF LOAN ORIGINATION AND OF PROPERTY DISPOSAL, 1920-46[a]

Period of Loan Origination	*Period of Property Disposal*	*Gain or Loss on 1-4 Family Dwellings*		*Gain or Loss on All Other Property*	
		As % of Original Loan Amount	As % of Lender's Investment	As % of Original Loan Amount	As % of Lender's Investment
1920-24	1930-34	–11.6%	–11.3%	..	..
	1935-39	–4.8	–6.3	–22.5%	–15.9%
	1940-46	–2.1	–2.0		
	1930-46	*–4.2*	*–4.7*	*–22.5*	*–15.9*
1925-29	1925-29	b	b	..	..
	1930-34	–3.8	–3.7	15.8	16.1
	1935-39	–7.0	–6.6		
	1940-46	–11.9	–10.9	–23.6	–22.1
	1925-46	*–9.2*	*–8.6*	*–14.0*	*–13.2*
1930-34	1930-34	1.9	1.8	..	..
	1935-39	–10.7	–9.4	12.7	10.6
	1940-46	–15.0	–13.4		
	1930-46[c]	*–12.0*	*–10.6*	*12.7*	*10.6*
1935-39	*1935-46*	*–8.3*[d]	*–8.1*[d]	b	b
1940-46	*1940-46*	*–5.5*	*–5.4*	b	b
	Total	–9.4%	–8.8%	–13.4%	–12.4%

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes eighteen foreclosed loans still on the books. For number of foreclosed loans, original loan amount and amount of lender's investment, see Appendix Table B8.

[b] Percent of gain or loss not shown since the sample consists of two loans or less.

[c] Includes one loan for which period of property disposal was not available.

[d] Includes two properties sold in 1935-39; the other seventeen were sold in 1940-46.

different types of properties. Table 28 shows that single family dwellings and apartments (i.e., residential structures accommodating five or more families) had a loss experience about equal to the average for all types combined, that one- to four-family dwellings with some business use and income-producing properties other than apartments had a somewhat higher-than-average loss rate, and, finally, that the two- to four-family dwelling group had the most favorable loss record

TABLE 28 – GAIN OR LOSS ON DISPOSAL OF FORECLOSED PROPERTIES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, 1920-46[a]

(*dollar figures in thousands*)

	Loans Foreclosed and Sold			*Gain or Loss*	
Type of Property	No.	Original Loan Amount	Lender's Investment at Foreclosure	As % of Original Loan Amount	As % of Lender's Investment
1-4 Family Dwellings	629	$3,835	$4,108	–9.4%	–8.8%
1 family[b]	514	2,831	3,051	–11.3	–10.5
2-4 family[b]	104	859	910	–2.2	–2.1
1-4 family with business use	11	145	147	–16.1	–15.8
All Other Property	84	6,490	7,034	–13.4	–12.4
Apartments	53	4,111	4,515	–11.5	–10.5
Other income property including stores	31	2,379	2,519	–16.7	–15.8
Total	713	$10,325	$11,142	–11.9%	–11.1%

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes eighteen foreclosed loans still on the books.

[b] With no business use.

of all types. This last result is surprising in view of the fact that the two- to four-family structures for the 1920-46 period had a higher foreclosure rate in terms of amount than any other broad property type. It suggests that the conditions under which such properties can be operated and sold subsequent to foreclosure cannot be inferred from their foreclosure experience.

Partially to eliminate the influence of economic conditions, prevailing when the loans were made, on the losses sustained when foreclosed properties were disposed of, all loans made before 1930 were set apart for special study. Also, loans were classified into two broad groups according to the type of property involved – one- to four-family structures and all others combined.

Data are presented in Table 29 so as to permit examination of the relation of geographic location of property to loss experience.

TABLE 29 — Gain or Loss on Disposal of Foreclosed Properties on a Sample of Urban Mortgage Loans Made by 24 Leading Life Insurance Companies, Classified by Type of Property and Geographic Location, 1920-29 [a]

(dollar figures in thousands)

Geographic Location	1-4 Family Dwellings: Loans Foreclosed and Sold: No.	1-4 Family Dwellings: Loans Foreclosed and Sold: Original Loan Amount	1-4 Family Dwellings: Gain or Loss as % of Original Loan Amt.	All Other Property: Loans Foreclosed and Sold: No.	All Other Property: Loans Foreclosed and Sold: Original Loan Amount	All Other Property: Gain or Loss as % of Original Loan Amt.
CENSUS REGION [b]						
New England	15	$86	−13.3%	24	$3,560	−25.4%
Middle Atlantic	148	936	−16.3			
East North Central	135	812	3.7	18	743	−21.2
West North Central	21	125	−15.9	9	298	13.2
South Atlantic	37	233	−18.6	10	793	17.8
East South Central	43	208	−8.2			
West South Central	14	85	−13.7			
Mountain	50	261	−3.3	11	789	−2.4
Pacific						
SIZE OF CITY [c]						
1,000,000 and over	127	730	1.9	17	2,826	−25.0
500,000 - 999,999	21	157	−7.8	8	954	−4.8
250,000 - 499,999	105	620	−4.9	20	772	5.2
100,000 - 249,999	63	360	−18.0	12	726	−24.3
25,000 - 99,999	75	428	−18.8	9	711	2.0
10,000 - 24,999	34	201	−20.6	6	194	−13.8
Under 10,000	36	229	−6.7	..	..	..
SIZE OF DISTRICT [c]						
Metropolitan	*424*	*2,538*	*−7.8*	*67*	*5,983*	*−15.1*
1,000,000 and over	215	1,378	−5.9	35	4,091	−22.1
250,000 - 999,999	141	828	−5.8	26	1,252	−.5
100,000 - 249,999	54	270	−19.8	6	640	1.1
50,000 - 99,999	14	62	−28.7			
Non-Metropolitan	*40*	*220*	*−17.9*	*6*	*209*	*1.6*
Total	464	$2,758	−8.7%	73	$6,192	−14.6%

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[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes thirteen foreclosed loans still on the books and a few loans for which geographic location was not known.

[b] For a listing of states included in each of the census regions, see footnote 3 of Chapter 4.

[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

Referring first to one- to four-family properties, no systematic relation can be found between loss experience and the section of the country in which the property is located, but it does appear that there was an appreciably better experience on properties located in the largest metropolitan districts, possibly owing to the more highly organized real estate market in these centers. The experience with properties other than those of the one- to four-family type has been somewhat different. In these cases structures in the large metropolitan areas and the highly industrialized regions seem to have had the least favorable record, probably influenced by heavy losses on a few large structures.

The contract terms of the loans which resulted in property acquisitions would not be expected to influence the eventual selling prices of these properties or the net result of their operation while in the owned real estate account. But these terms would be expected to influence gain or loss in so far as they might affect the amount of the loan still outstanding at the time of foreclosure. Data bearing on this question are presented in Table 30. In general it might be assumed that loans made on relatively liberal terms would have the highest loss ratios relative to original loan amounts, on the theory that the amount of the loan outstanding at the time of foreclosure would be larger, other things equal, for these loans than for loans made on less liberal contract terms. However, there is no systematic relation between property loss experience and the interest rate or the contract length for loans on one- to four-family properties. Amortized loans made in 1920-24 had a better loss experience than nonamortized loans made in this same period, but the differential is not apparent on loans made in 1925-29. It appears that the losses have been highest on the largest loans made on one- to four-family properties and on those originally made with the lowest loan-to-value ratios. The high losses on loans with loan-to-value ratios of less than 40 percent appear to be due to the fact that many such loans were made on high-priced single family dwellings ranging in appraised value from $20,000 to $40,000. While held as foreclosed real estate, these properties frequently failed to provide sufficient income to meet taxes, insurance, and other expenses, and frequently the properties were sold for less than the original loan investment.

The record is conflicting for properties outside of the one- to four-family class, but those acquired as the outcome of loans made

TABLE 30 – GAIN OR LOSS ON DISPOSAL OF FORECLOSED PROPERTIES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS, 1920-29 [a]

(dollar figures in thousands)

CONTRACT TERMS	1-4 FAMILY DWELLINGS			ALL OTHER PROPERTY		
	Loans Foreclosed and Sold		*Gain or Loss as % of Original Loan Amt.*	*Loans Foreclosed and Sold*		*Gain or Loss as % of Original Loan Amt.*
	No.	Original Loan Amount		No.	Original Loan Amount	
TYPE OF LOAN						
Fully amortized	47	$208	–11.2%	56	$4,486	–17.4%
Partially amortized	286	1,762	–6.4			
Nonamortized	131	788	–13.3	17	1,706	–7.1
CONTRACT INTEREST RATE						
5.0 - 5.9%	75	457	–2.9	31	3,543	–14.8
6.0	364	2,157	–9.9	42	2,649	–14.3
6.1 - 6.9	15	76	–13.8			
7.0 and over	10	68	–2.7			
CONTRACT LENGTH						
0 - 4 years	120	696	–10.7	8	876	–12.7
5 - 9	243	1,509	–7.2	42	3,712	–19.7
10 - 14	78	439	–9.9	23	1,604	–3.7
15 - 19 [b]	23	114	–11.2			
ORIGINAL LOAN AMOUNT						
Less than $5,000	221	779	–6.7	8	59	–28.4
5,000 - 9,999	192	1,310	–5.5			
10,000 - 19,999	51	669	–17.3	8	120	–31.0
20,000 - 49,999				31	998	–10.7
50,000 - 99,999	..	..	..	11	730	–11.9
100,000 and over	..	..	..	15	4,285	–15.3
LOAN-TO-VALUE RATIO [c]						
0 - 39%	22	184	–41.5	73	6,192	–14.6
40 - 79	413	2,452	–6.3			

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[a] Based on a 1 percent sample of all loans made after January 1, 1920. Excludes thirteen foreclosed loans still on the books.

[b] Includes one loan made on one- to four-family dwellings for contract length of twenty years or over.

[c] Excludes twenty-nine loans made on one- to four-family dwellings for which loan-to-value ratio was unknown.

on relatively short terms and in relatively small amounts appear to have had a somewhat worse-than-average loss record at the final sale.

EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES

A comparison of the gross yields that were expected on specified groups of loans with the yields that were actually realized will conclude this description of mortgage loan experience. Realized yields will differ from expected yields to the extent that the original contract rates on some of the loans were modified (generally by reduction) and that some loans were foreclosed and gave rise to an eventual profit or loss. The difference between the two yields, which is negative for all larger loan groups, is called the "loss rate" and is as close an approximation as could be made of the rate at which reserves should have been accumulated if the full amount of losses were to be absorbed. The principal value of this analysis is the light it throws on the question of what constitutes an adequate provision for loss reserves. Beyond this, however, realized yields serve to identify those types or groups of loans on which gross returns (after losses) have been highest.

Expected yields for each of the different groups of mortgage loans were computed by taking averages of the original contract interest rates of all loans in each group, weighted by their original amounts. Some loans have the same interest rate at extinguishment as at origination; in such cases the expected and realized yields are equivalent. Realized yields deviate from expected yields on two classes of loans, namely, paid-out loans on which rates were modified and foreclosed loans.

On modified loans the rate obtaining at the time the loan was extinguished, weighted by the amount of the loan at time of origination, was taken as the realized rate.[5] A somewhat more complex procedure was required in computing realized yields on foreclosed loans. In this case the gross income of the whole transaction was taken to be the sum of the original contract rate of interest times the average amount of the outstanding loan balance (an average of the original amount of the loan and the unpaid principal at the time the loan is transferred to real estate) times the number of years the loan was outstanding plus (or minus) the amount of the gain (or loss) sustained on the operation and sale of the real estate acquired through foreclosure. This total income was then related to an estimate of the amount of the lender's investment in the joint loan and real estate transaction, defined as the average amount of the outstanding loan balance times the number of years the loan was outstanding plus the amount of the lender's investment in the property at foreclosure (e.g., unpaid principal plus capitalized costs) times the number of years the real estate was held before disposal.[6]

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[5] This method of yield calculation understates the actual realized yield but not by a very considerable amount, since only about 13 percent of all extinguished loans were in the group of those not foreclosed but modified as to rate before final repayment.

One other aspect of the analysis of yields must be clarified before reviewing the factual findings. In yield analysis, as in the study of foreclosure rates, much depends on the economic conditions prevailing when loans were originated and when the properties acquired as a result of foreclosure were finally disposed of. Consequently, yields are studied for loans grouped according to the period in which they were made and the period in which they were extinguished, the periods employed being the same as those used in the reconstruction of mortgage lending history.

In the tables that follow data are presented on expected yields, realized yields, and loss rates for mortgages grouped according to the different characteristics of their contracts and of the properties that secure them and also by the periods in which the mortgages were originated and extinguished. The expected yield figures merely reflect contract interest rates and since these were treated in Chapter 4, although in somewhat different form, the following discussion is restricted to salient conclusions with regard to realized yields and loss rates.

First, if we take all loans made and extinguished in the period 1920-46, without regard to when they were made or extinguished within that period and without regard to property type, the over-all loss rate is 0.75 percent. Loans secured by single family dwellings, and by income-producing properties other than apartments and

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[6] Using the notations of the mortgage loan experience card (Appendix A), the realized yield on foreclosed properties was computed as follows:

$$\text{Realized Yield} = \frac{H_5\left(\frac{H_2 + K_4}{2}\right)(J_5 - H_1) \pm K_{18}}{\left(\frac{H_2 + K_4}{2}\right)(J_5 - H_1) + K_9\,(K_1 - J_5)}$$

stores, had the lowest loss rates, 0.51 and 0.17 percent, respectively (Table 31). Loss rates on two- to four-family structures with no business use, apartments, and stores were considerably higher than the average for all property types combined (over 1.00 percent).

TABLE 31 — Expected Yields, Realized Yields, and Loss Rates on a Sample of Urban Mortgage Loans Made by 24 Leading Life Insurance Companies, Classified by Type of Property, 1920-46 [a]

Type of Property	*Expected Yield*	*Realized Yield*	*Loss Rate*
1-4 Family Dwellings	5.59%	5.01%	.58%
1 family [b]	5.56	5.05	.51
2-4 family [b]	5.77	4.73	1.04
1-4 family with business use	5.74	4.89	.85
All Other Property	5.31	4.41	.90
Apartments	5.43	4.16	1.27
Stores	5.32	4.30	1.02
Other income property	5.10	4.93	.17
Total	5.44%	4.69%	.75%

[a] Based on a 1 percent sample of all loans made after January 1, 1920; excludes loans and properties still on the books in 1946. See Appendix Table B9 for full data.

[b] With no business use.

In general, the realized yields on one- to four-family dwellings were higher than on income-producing properties. However, the more favorable return on the one- to four-family dwellings is partially offset by the fact that the costs per $100 of investment are greater for administering small loans on dwellings than for servicing and acquiring large loans on income-producing properties. Contract rates of interest were quite uniform throughout the whole group of loans on one- to four-family dwellings, but owing to their low loss rate loans secured by single family dwellings had the highest realized yield (5.05 percent); among the other loans those secured by income-producing properties other than apartments and stores had the next highest realized yield (4.93 percent). The experience on income-producing properties other than apartments and stores is especially notable since the relatively low costs of acquiring and servicing these loans and their relatively favorable loss experience suggest a higher final yield than on loans secured by any other of the broad property types studied.

Second, loss experience has varied considerably on mortgages made and extinguished under different economic conditions. Except for loans made after 1934, loss rates on both broad property types were highest on the loans terminated in the years 1940-46 and next highest on those terminated in 1935-39 (Table 32). This is be-

TABLE 32 – EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD OF ORIGINATION AND EXTINGUISHMENT, 1920-46 [a]

Period Made	*Period Exting.*	*1-4 Family Dwellings*			*All Other Property*		
		Exp. Yield	Real. Yield	Loss Rate	Exp. Yield	Real. Yield	Loss Rate
1920-24	1920-24	6.19%	6.19%	.00%	5.70%	5.70%	.00%
	1925-29	5.96	5.94	.02	5.93	5.93	.00
	1930-34	5.99	5.92	.07			
	1935-39	5.99	5.35	.64	5.71	5.75	+.04
	1940-46	5.91	4.96	.95	6.03	3.87	2.16
	1920-46	*5.99*	*5.81*	*.18*	*5.89*	*5.58*	*.31*
1925-29	1925-29	5.88	5.89	+.01	5.22	5.22	.00
	1930-34	5.88	5.76	.12	5.33	5.33	.00
	1935-39	5.91	5.01	.90	5.44	5.41	.03
	1940-46	5.89	4.02	1.87	5.64	2.53	3.11
	1925-46	*5.89*	*5.03*	*.86*	*5.51*	*3.81*	*1.70*
1930-34	1930-34	5.95	5.88	.07	5.85	5.65	.20
	1935-39	6.03	4.91	1.12			
	1940-46	5.95	4.28	1.67	5.34	4.75	.59
	1930-46	*5.98*	*4.79*	*1.19*	*5.51*	*5.06*	*.45*
1935-39	1935-39	5.30	4.85	.45	5.08	5.02	.06
	1940-46	5.20	4.98	.22	4.74	4.63	.11
	1935-46	*5.21*	*4.97*	*.24*	*4.78*	*4.67*	*.11*
1940-46	*1940-46*	*4.60*	*4.57*	*.03*	*4.33*	*4.31*	*.02*
	Total [b]	5.59%	5.01%	.58%	5.31%	4.41%	.90%

[a] Based on a 1 percent sample of all loans made after January 1, 1920; excludes loans and properties still on the books in 1946. See Appendix Table B10 for full data.

[b] Includes fourteen loans made on one- to four-family dwellings and two loans made on income-producing properties for which period made was not available.

cause a high proportion of the loans extinguished during these two periods were terminated through the sale of foreclosed properties. On the other hand, losses on loans made and extinguished between 1920 and 1934 were negligible, and losses on loans made and extinguished between 1935 and 1946 were relatively low.

Table 32 also shows that for loans made in the period 1920-24, regardless of when extinguished, the loss rate was only 0.18 percent on loans made on one- to four-family dwellings and 0.31 percent on other properties, whereas loss rates of 0.86 and 1.70 percent, respectively, were sustained on loans made in 1925-29. This contrast may be attributed to the fact that the 1920-24 loans were originated long enough before the severe decline in business activity to have had ample opportunity for repayment; those made in 1925-29 were caught in a wave of mortgage distress before substantial repayment could be effected. The outstanding fact shown by Table 32, however, is that loss rates on mortgage investments have been highly variable in different economic periods, and that any extension into the future of losses characteristic of a given period may greatly underestimate or overestimate long-term experience.

It is interesting to note also that the contract interest rate on loans made in 1925-29 was somewhat lower than on loans made in the preceding period (1920-24). This tendency for interest rates to decline in the years 1925-29 and for loan portfolios to expand rapidly reflects the optimism characteristic of both parties to the mortgage contract at precisely the time when increased caution was warranted.

Third, nonamortized loans and loans made on a basis of partial repayment before maturity had a considerably less favorable loss rate than loans made on a fully amortized basis (Table 33). This superiority of the amortized over the nonamortized loan is not so marked for the loans made in the period 1925-29 as for those made in earlier years; amortized loans made in 1930-34 showed no advantage over nonamortized loans. As already mentioned in treating foreclosure rates by loan type, these results suggest that the amortization feature of loan contracts is less effective in limiting losses on loans made at or near the peak of a mortgage cycle than on those made some years before general mortgage distress becomes widespread. Loans insured by the Federal Housing Administration have not been made for a sufficient period of time to draw conclusions concerning their relative merit in times of economic distress, but since their

TABLE 33 – Expected Yields, Realized Yields, and Loss Rates on a Sample of Urban Mortgage Loans Made by 24 Leading Life Insurance Companies, Classified by Type of Property, Period Made, and Type of Loan, 1920-46[a]

Period Made and Type of Loan	*1-4 Family Dwellings*			*All Other Property*		
	Exp. Yield	Real. Yield	Loss Rate	Exp. Yield	Real. Yield	Loss Rate
1920-24						
Fully amortized	6.04%	6.01%	.03%	5.92%	5.64%	.28%
Partially amortized	5.97	5.81	.16			
Nonamortized	5.96	5.55	.41	5.79	5.40	.39
1925-29						
Fully amortized	6.01	5.44	.57	5.80	5.78	.02
Partially amortized	5.88	5.05	.83	5.59	3.54	2.05
Nonamortized	5.86	4.68	1.18	5.30	4.20	1.10
1930-34						
Fully amortized	5.97	4.89	1.08	5.80	5.06	.74
Partially amortized	6.02	5.08	.94			
Nonamortized	5.87	4.07	1.80	5.19	5.06	.13
1935-39						
Fully amortized	5.25	5.15	.10	4.80	4.73	.07
Partially amortized	5.38	4.76	.62	4.76	4.67	.09
Nonamortized	5.37	4.86	.51	4.85	5.33	+.48
FHA	4.97	4.86	.11	b	b	b
1940-46						
Fully amortized	4.69	4.62	.07	4.33	4.34	+.01
Partially amortized	4.74	4.73	.01	4.33	4.18	.15
Nonamortized	5.01	5.01	.00	b	b	b
FHA	4.52	4.50	.02	b	b	b
1920-46						
Fully amortized	5.51	5.15	.36	4.58	4.56	.02
Partially amortized	5.86	5.17	.69	5.49	4.29	1.20
Nonamortized	5.84	4.76	1.08	5.37	4.61	.76
FHA	4.64	4.60	.04	b	b	b

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[a] Based on a 1 percent sample of all loans made after January 1, 1920; excludes loans and properties still on the books in 1946. See Appendix Table B11 for full data.

[b] Yields and loss rates not shown since sample includes less than five loans.

terms are like those of conventional, fully amortized loans, it is not surprising that they had a loss rate similar to that for loans made on one- to four-family dwellings in 1935-39 and extinguished by 1946.

Fourth, such evidence as there is of differences in loss rates according to the geographical location of the mortgaged property is shown in Table 34, which presents yields and loss rates for two broad groups

TABLE 34 – EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION, 1920-46 [a]

Geographic Location	*1-4 Family Dwellings*			*All Other Property*		
	Exp. Yield	Real. Yield	Loss Rate	Exp. Yield	Real. Yield	Loss Rate
CENSUS REGION [b]						
New England	5.31%	4.69%	.62%	5.35%	4.99%	.36%
Middle Atlantic	5.59	4.53	1.06	5.24	3.62	1.62
East North Central	5.57	5.08	.49	5.36	4.68	.68
West North Central	5.60	5.26	.34	5.65	5.29	.36
South Atlantic	5.56	5.07	.49	5.22	5.11	.11
East South Central	5.67	5.03	.64	5.44	4.40	1.04
West South Central	5.41	5.10	.31	5.17	5.07	.10
Mountain	5.76	5.50	.26	4.92	4.81	.11
Pacific	5.73	5.34	.39	5.48	4.55	.93
SIZE OF CITY [c]						
1,000,000 and over	5.68	4.99	.69	5.39	4.02	1.37
500,000 – 999,999	5.53	5.08	.45	5.00	4.38	.62
250,000 – 499,999	5.65	5.10	.55	5.47	5.10	.37
100,000 – 249,999	5.67	5.03	.64	5.23	4.35	.88
25,000 – 99,999	5.62	5.04	.58	5.29	4.51	.78
10,000 – 24,999	5.46	4.87	.59	5.58	4.55	1.03
Under 10,000	5.33	4.90	.43	5.47	5.10	.37
SIZE OF DISTRICT [c]						
Metropolitan	*5.60*	*5.01*	*.59*	*5.31*	*4.39*	*.92*
1,000,000 and over	5.59	4.95	.64	5.29	4.02	1.27
250,000 – 999,999	5.57	5.06	.51	5.44	5.09	.35
100,000 – 249,999	5.68	5.06	.62	5.13	4.49	.64
50,000 – 99,999	5.66	5.02	.64	5.20	6.00	+.80
Non-Metropolitan	*5.52*	*5.01*	*.51*	*5.30*	*4.62*	*.68*

[a] Based on a 1 percent sample of all loans made after January 1, 1920; excludes loans and properties still on the books in 1946. See Appendix Table B12 for full data.

[b] For a listing of states included in each of the census regions, see footnote 3 of Chapter 4.

[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

of properties. Loans on both one- to four-family properties and on other properties in the Middle Atlantic states and in cities with the largest population had the highest loss rates. The East South Central region also appeared to have a considerably higher-than-average loss rate on both broad types of property. In contrast, the West South Central and Mountain regions had low loss rates. Since the interest rates on loans made in the various sections of the country and in the different sized cities were fairly standard, particularly on one- to four-family dwellings, differences in realized yields depended primarily on differences in loss rates.

Finally, attention may be called to the relation between loss rates and realized yields and the salient terms of the mortgage loan contracts, namely, amount of loan, length of contract, and loan-to-value ratio. Table 35 suggests that on one- to four-family properties loss rates have been somewhat higher on the loans made in large amounts than on smaller loans similarly secured; there was no clear pattern of loss differentials on loans secured by other types of properties when classified according to loan size, possibly because this subgroup of the total loan sample consists of a comparatively small number of loans made on widely different types of income-producing properties.

TABLE 35 – EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND ORIGINAL LOAN AMOUNT, 1920-46 *

Original Loan Amount	*1-4 Family Dwellings*			*All Other Property*		
	Exp. Yield	Real. Yield	Loss Rate	Exp. Yield	Real. Yield	Loss Rate
Under $5,000	5.63%	5.26%	.37%	5.64%	4.59%	1.05%
5,000 - 9,999	5.56	4.94	.62	5.59	5.07	.52
10,000 - 19,999	5.59	4.67	.92	5.65	4.97	.68
20,000 - 49,999	5.70	4.02	1.68	5.56	4.64	.92
50,000 - 99,999	5.41	5.30	.11	5.49	4.86	.63
100,000 and over				5.17	4.17	1.00

* Based on a 1 percent sample of all loans made after January 1, 1920; excludes loans and properties still on the books in 1946. See Appendix Table B13 for full data.

The analysis of the effect of contract length and of loan-to-value ratio on loss rates is complicated by the fact that, with respect to both of these characteristics, loans made after 1934 differed markedly from those made previously. Differential loss experience is likely, therefore, to reflect mainly the different economic circumstances under which the loans were made. In order to avoid this complication only those loans made between 1920 and 1929 are included in Table 36. The loss rate on loans made on one- to four-family dwellings was greatest for loans with loan-to-value ratios under 40 percent and with contracts made either for less than five years or for fifteen years or more. On income-producing properties, loans made for a period of five to nine years and with a loan-to-value ratio of 40 percent and over had the worst loss rate experience.

TABLE 36 – EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE FROM 1920-29 AND EXTINGUISHED BY 1946 BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS[a]

Contract Terms	*1-4 Family Dwellings*			*All Other Property*		
	Exp. Yield	Real. Yield	Loss Rate	Exp. Yield	Real. Yield	Loss Rate
LOAN-TO-VALUE RATIO						
0 – 39%	5.96%	5.09%	.87%	5.55%	5.24%	.31%
40 – 79[b]	5.90	5.19	.71	5.63	4.07	1.56
CONTRACT LENGTH						
0 – 4 years	5.89	5.02	.87	5.30	4.76	.54
5 – 9	5.89	5.24	.65	5.75	3.95	1.80
10 – 14	5.99	5.48	.51	5.52	4.56	.96
15 – 19[c]	5.97	4.74	1.23	5.72	5.16	.56
Total	5.92%	5.24%	.68%	5.61%	4.29%	1.32%

[a] Based on a 1 percent sample of all loans made after January 1, 1920; excludes loans and properties still on the books in 1946. See Appendix Table B14 for full data.

[b] Includes three loans on one- to four-family dwellings and four loans on income-producing properties which had loan-to-value ratios of 80 percent and over.

[c] Includes two loans on one- to four-family dwellings and one loan on an income-producing property which were made with contract lengths of twenty years and over.

LOSS RESERVES AND NET EXPECTED YIELDS

It is evident from these findings on losses sustained on different types of mortgage loan investments that some elaboration may be made of the analysis of expected net yield which appeared in the conclusion of Chapter 5. It was indicated there that an allowance for potential loss, as well as amounts necessary to cover the costs of loan acquisition and loan servicing, had to be deducted from gross expected yield in order to obtain net expected yield. Only with a net yield figure in mind is it possible to compare the relative attractiveness of alternative investment opportunities.

It is clear from the above findings that loss rates have varied widely on different types of loans and that the risk factor of 0.25 percent used in the Chapter 5 example represents experience on a relatively high grade of mortgage risk. This was true even for a period such as 1920-46, in which the years of mortgage distress were preceded and followed by relatively long periods of negligible loss. It would have been necessary to accumulate loss reserves at a higher rate than 0.25 percent during 1920-46 for mortgages with less attractive yield experience. It is impossible, of course, to foretell what future experience will be, but the foregoing analysis indicates that the accumulation of loss reserves at or below a rate of 0.25 percent per annum on outstandings of conventional mortgages means that the lending agency is in fact assuming that experience over another cycle of mortgage foreclosure and property disposal will be more favorable by a considerable amount than experience over the last full cycle.

APPENDIX A

Loan Experience Card and Instructions to Cooperating Companies

National Bureau of Economic Research

MORTGAGE LOAN EXPERIENCE CARD

Financial Research Program

A. ☐

B. Location of property: State .... City or town ....

C. Type of property (check one)
- 1 ( ) One-family, no business
- 2 ( ) Two-family, no business
- 3 ( ) Three-family, no business
- 4 ( ) Four-family, no business
- 5 ( ) Business and 1- to 4-family
- 6 ( ) Apartments, no business
- 7 ( ) Apartments and business
- 8 ( ) Office building
- 9 ( ) Store only
- 10 ( ) Store and office
- 11 ( ) Manufacturing and industrial
- 12 ( ) Vacant lot or land
- 13 ( ) Other (please specify) ....

....

D. Type of loan at time of making (check one)
- 1 ( ) FHA
- 2 ( ) Conventional, fully amortized
- 3 ( ) Conventional, partially amortized
- 4 ( ) Conventional, nonamortized
- 5 ( ) Veterans' Adm. guar. or ins. loan

E. Original schedule of payments (check)

	Prin.	Int.
1. Monthly	( )	( )
2. Quarterly	( )	( )
3. Semi-annual	( )	( )
4. Annual	( )	( )
5. None	( )	( )

F. Is this a purchase money mortgage? Yes ( ) No ( )

G. Is this a real estate sales contract? Yes ( ) No ( )

H. Original loan: (1) Year loan was made ....

(2) Amt. $.............. (3) Appraised value $..............

(4) Contract term (in years) ....

(5) Contract rate of interest ....%

I. Subsequent modifications in loan or sales contract:

Month and Year of Modification (1)	Unpaid Balance at Time of Modification (2)	Changes in Outstanding Balance			Extension of Contract Term (in yrs.) (6)	Change in Contract Rate of Interest (7)	Changes in Loan Type (see D above) (8)	New Appraisal (9)	Unpaid Balance After Modifications (10)
		Advance of Additional Funds (3)	Reduction of Principal						
			By Compromise (4)	By Payment (5)					
First	$	$	$	$		to ....%		$	$
Second						to ....%			
Third						to ....%			

J. Loan status:
(1) Still on books (state unpaid balance) $............... (2) Paid off (year) ....
(3) Transferred to HOLC (year) .... (4) Loan sold or assigned (year) ....
(5) Title acquired (year) ....; by foreclosure ( ); by voluntary deed ( )

(If property was acquired and sold fill in Schedule K on reverse side of this card)
(concluded on next page)

Fill in Schedule K *only* if property was acquired and sold

K. Data on property acquired and sold

(1) Year in which property was sold			
(2) Was a purchase money mortgage taken? Yes ( ) No ( )			
(3) Was property sold under a real estate sales contract? Yes ( ) No ( )			
(4) Unpaid principal balance of loan at time of transfer to owned real estate	$..........		
(5) Amounts paid out in taxes, insurance, etc., prior to foreclosure, if not included elsewhere in this schedule	$..........		
(6) Delinquent interest at time of transfer to real estate (Check here if this figure represents compounded interest ☐)	$..........		
(7) Total of items 4, 5, and 6		$..........	
(8) Foreclosure costs paid (legal, advertising, etc.)		$..........	
(9) Total of items 7 and 8			$..........
(10) Proceeds of deficiency judgments and other settlements		$..........	
(11) Income from property while held as real estate	$..........		
(12) Expenses incurred on property (taxes, insurance, repairs, improvements, management, and commissions on sale, etc.)	$..........		
(13) Net income (+) or loss (—) on property (item 11 minus item 12)		$..........	
(14) Sale price		$..........	
(15) Net of items 10, 13, and 14			$..........
(16) Loss (or gain) on property (item 15 minus item 9)			$..........

Section I—SAMPLING INSTRUCTIONS

In selecting the individual ledger or mortgage cards from your file, use Method A or Method B, depending on the way in which your ledger cards on mortgage loans are filed.

USE METHOD A IF YOUR LEDGER CARDS ARE FILED NUMERICALLY

(1) Find the number of the first loan made after January 1, 1920.

(2) The number of *the first loan selected for the sample* should be the first number, *after* the number noted in (1), that ends in two zeros—i.e., the first number that is a multiple of 100. Select that ledger card and the ledger card on *every hundredth loan* thereafter.

Examples: Suppose that the first loan made after January 1, 1920 carries the number 1623. Then the numbers of the loans in your sample would be 1700, 1800, 1900, 2000, and so on.

Suppose that the first loan made after January 1, 1920 carries the number 1104. Then the first loan in the sample would be number 1200, and the following loans would be 1300, 1400, 1500, and so on.

(If you wish, you may prepare a written list of these loan numbers before drawing the actual cards from the files.)

(3) *Omit all farm loans.* That is, if the ledger card bearing any of the numbers determined by Step (2) happens to refer to a farm loan, omit that loan and proceed to the next number in the series.

Examples: If loan number 2200 turns out to be a farm loan, omit it from the sample and proceed to loan number 2300 *—not to loan number 2201.*

If loan number 2300 is a farm loan also, disregard that loan as well and proceed to loan number 2400, continuing until the next city loan is reached.

(This situation will occur only when city loans and farm loans are numbered in a single sequence.)

(4) *Omit all "successor loans."* If the ledger card bearing any of the numbers determined by Step (2) refers to a loan that was a successor to an earlier loan, that is, if the ledger card selected refers to *a recast loan that was assigned a new number,* omit the selected loan and proceed to the next number in the series.

Examples: Loan number 5600 is a "successor loan" because it represents an advance of additional funds on an earlier loan. When the loan was recast it was given a new number, 5600. Omit loan number 5600 and proceed to loan number 5700.

Loan number 9100 is a "successor loan" because it represents an extension of maturity on an earlier loan, with the recast loan given the new loan number 9100. Omit loan number 9100 and proceed to loan number 9200.

(5) Continue Step (2) until you have gone through all your mortgage card files. With the exception noted in (4), *do not exclude any urban mortgage loan, even though it may seem extremely untypical of the mortgage experience of your company.*

USE METHOD B IF YOUR LEDGER CARDS ARE NOT FILED NUMERICALLY

(or if loans cannot be located conveniently by number in the file)

(1) Beginning with any file cabinet you choose, take the first loan card and every hundredth loan card thereafter throughout all your files. That is, the *first six* loans in your sample will be the 1st, 101st, 201st, 301st, 401st, and the 501st from your files.

Caution: Be sure actually to *count* the loans, so that you select every hundredth loan exactly. Do not guess or use short-cut methods in selecting the hundredth loan.

Also, be sure to count *loans,* not cards. If the same loan is represented by more than one card, count all the cards pertaining to that loan as *one* item.

(If inactive loans are filed according to the year in which they were made or paid off, it will of course be unnecessary to sample cabinets containing loans made before 1920.)

(2) *Omit all farm loans.* If urban loans and farm loans made by your company are filed together, some of the loans drawn in counting by the above system will be farm loans. In each such case, disregard the farm loan and proceed to the next hundredth loan until a city loan appears.

(3) *Omit all loans made before January 1, 1920.*

Example: If the 701st loan was made before that date, omit it, continue counting, and proceed to the 801st loan.
If the 801st loan was also made before January 1, 1920, omit it also, continue counting, and proceed to the 901st loan; and so on until a loan appears that was made after January 1, 1920.

(4) *Omit all "successor loans."* By "successor loan" is meant a loan that is a recast of an earlier loan—that is, additional funds were advanced, or the maturity was extended, and a new loan was written. If a card drawn in counting by the above system refers to such a loan, omit it and proceed to the next hundredth loan.

Examples: The 5601st loan from your files is a "successor loan" because it represents an advance of additional funds on an *earlier* loan. Omit the 5601st loan and proceed to the 5701st loan.
The 1101st loan from your files is a "successor loan" because it represents an extension of maturity on an *earlier* loan. Omit the 1101st loan and proceed to the 1201st loan.

(5) Continue in the same way through all your mortgage files. With the exceptions noted in (3) and (4), *do not exclude any urban mortgage loan, either on residential or income-producing properties, even though it may seem extremely untypical of the mortgage experience of your company.*

(6) If there are several files, be sure to sample all of them (except cabinets containing *only* loans made before 1920). For example, sample both active and inactive files; if there is a separate file of FHA loans, or a separate real estate contract file, sample these also, and so forth.

The order in which the file drawers are sampled does not matter. In going from one file drawer to another, or from one file to another, carry over the number of loans remaining in the last file drawer to those in the next file drawer, until the next hundredth loan is reached.

Example: If the last loan in a file cabinet is the 562nd, count the first loan in the next cabinet as the 563rd, and continue counting until you reach the 601st loan, which you take for the sample.

In other words, treat the files as if they were combined in one continuous and consecutive file.

COMPLETE THE LOAN HISTORIES

Whether you have used Method A or Method B, you have now assembled a group of ledger cards that represent a 1 percent sample of the loans made by your company.

The record must now be completed by adding a few more cards that will give the *full history* of each loan selected. This should be done as follows: Go through the sample, card by card. If a card shows that the loan was later recast and given a new loan number and that another card was prepared, find the later card in your files and attach it to the card representing the original loan.

If the loan was recast more than once, you may have to attach two or more cards to the original card. In other words, you follow the loan forward, through its several modifications, to its extinguishment.

Example: (The numbers used here are those that might appear if cards were selected by Method A, but the principle is the same for cards selected by Method B.)
If loan number 1700 was selected in your original drawing of cards, and you see from the card that it was recast and a new loan written with a new number—say number 2276

—then pull the card on loan 2276 and attach it to card 1700 as part of the same loan transaction.

Perhaps loan 2276 itself was subsequently recast, and another new loan written with a new number—say number 3402. Pull the card on loan 3402 and attach it to cards 1700 and 2276.

If card 3402 shows that the loan was not modified again, the three cards give the complete history of that loan.

In a very few cases you may find that the card representing a recasting of a loan is one that you *omitted* in your first drawing of cards because it was recognized as a "successor loan" [see paragraph (4) under Method A or B above]. For example, you now find that card 6200 (which you correctly omitted in your first drawing) represents a modification of original loan number 400, which you included in the sample. In this case, card 6200 *does* belong in the sample; you therefore attach it to card number 400.

Exception: There is one type of loan alteration that is considered to be a termination rather than a modification of the original loan. If a loan was recast *because of a substantial increase in the value of the underlying property resulting from improvements,* consider the recast loan a *new* loan, not a modification. Do not attach the card representing the recast loan to the old loan card. Regard this loan as having been terminated at the date of the recasting.

For purposes of this rule, "substantial increase" means an increase of 25 percent or more in the value of the underlying property.

With the addition of these cards, which complete the loan histories, the sample is ready to be used for transcribing information to the "Mortgage Loan Experience Cards."

Each loan will use a separate card. We have sent you _____ cards, which allows a margin for wastage. If you need more, please ask us for them.

Instructions for filling out the Mortgage Loan Experience Card will be found in Section II, following.

Section II—INSTRUCTIONS FOR FILLING OUT THE MORTGAGE LOAN EXPERIENCE CARD

These instructions should be read through and compared with the Mortgage Loan Experience Card before any transcriptions are made from the ledger cards that you have drawn from your files by the sampling methods described in Section I.

Schedules A to H inclusive, and Schedule J, are to be filled in completely (so far as possible) for each loan in the sample.

Schedule I will be filled in for only a part of the loans selected.

Schedule K (reverse of card) will be filled in for only a few of the loans selected.

If data are not available, write "n.a." for the question involved.

If you feel that any special comments should be made on a particular loan, enter them on a separate sheet. Mark this sheet with the same identification number as the card it applies to, and attach it to the card.

In this analysis, a mortgage loan is defined as an obligation secured by a specific piece of *property*. Therefore, in filling out the Mortgage Loan Experience Card, the information recorded about each loan should carry the history of the loan forward, from its origination, through any modifications, to extinguishment, regardless of the fact that the original obligor may have been succeeded by one or more other obligors.

Schedule A. *Loan Identification Number.* A space is provided in which to give a number that will permit identification by your company of the loan on which information is transcribed. Whether this is the loan's actual file number, or a new number assigned so as not to disclose the loan's file number, does not matter for purposes of the National Bureau's analysis. In either case you should keep a record so that you can refer back to a particular loan if necessary; it is especially important to keep such a record if the number given in Schedule A is not the actual file number of the loan.

Schedule B. *Location of Property.* Enter here the state where the *property* is located, also the city or town. Do not indicate street address.

Schedule C. *Type of Property.* From among the listed types of property, check the one that best describes the *principal characteristic* of the property mortgaged. If the property is not adequately described by any one of the listed types, indicate its character under Item 13.

Schedule D. *Type of Loan at Time of Making.* Check the appropriate type of loan. If it is not possible to distinguish between a fully amortized and a partially amortized conventional (i.e., uninsured) loan, bracket types 2 and 3 and check the bracket.

Schedule E. *Original Schedule of Payments.* Check the type of principal and interest payment schedules which were set up *at the time the loan was made.*

Schedule F. *Purchase Money Mortgage.* Indicate here by a check mark whether the loan selected was a "purchase money mortgage" *when first put on the books.* A purchase money mortgage means a mortgage taken as part of the consideration received on the sale of property owned by the mortgagee.

Schedule G. *Real Estate Sales Contract.* Indicate here whether the transaction was initiated as a real estate sales contract.

Schedule H. *Original Loan.*

(1) Year loan was made: Give the last two figures of the year during which the loan was made; for example, a loan made at any time in 1927 would be indicated 27.

(2) Amount: Indicate the original amount in dollars, omitting cents.

(3) Appraised value: Give the original appraisal of land and buildings combined, in dollars, omitting cents.

(4) Contract term: Give the original term of the contract to the nearest year. If the original loan was written on a demand basis, write in "demand," or "demand after ——— years," whichever the case may be.

(5) Contract rate of interest: This refers to the *gross* rate of interest, that is, the rate charged to the borrower. It should be reported gross of any participations in interest by the company's correspondent or other agent.

Schedule I. *Subsequent Modifications in Loan or Sales Contract.* This schedule asks for information on such modifications of the original contract as may have been made; for example, an advance of additional funds, or forgiveness of part of the principal through compromise, or the extension of contract term (including cases in which the principal was reduced by payment and the loan term was extended), or changes in the contract rate of interest or loan type.

Such changes should be indicated in the appropriate columns of Schedule I. If several of the loan's features were changed in the same modification, make all the necessary entries on the same line. Leave those columns blank that refer to loan features that were not modified. Give amounts in dollars, omitting cents.

If additional space is needed to record contract modifications, use additional cards and staple or clip together. (Please mark all cards applying to a given loan with the same identification number.)

Unpaid balance at time of modification (column 2) and *unpaid balance after modification* (column 10) should be filled in in every case.

In reporting *advance of additional funds* (column 3) ignore changes that resulted from periodic increases in the balance because of tax payment, etc. However, an increase in the balance because of payments of accumulated taxes on which the debtor was delinquent should be considered an "advance of additional funds." Also, if the loan was rewritten and the unpaid balance of the old loan reduced to zero, then the unpaid balance at the time the loan was rewritten should be given in column 2 and the amount of additional funds over and above the former balance entered in column 3; the resulting new unpaid balance should be reported in column 10.

Reduction by compromise (column 4) refers to the forgiveness of part of the unpaid principal balance by compromise, i.e., by agreement between mortgagor and mortgagee.

Under column 6 indicate the *additional* number of years for which the contract was extended. Thus, a contract having two years to run, which was modified to mature in six years, would be considered as having been extended for four years. For purposes of this calculation consider as a full year any part of a year that is six months or more.

Under column 7 indicate only the *new rate of interest.*

Column 8, *changes in loan type,* is provided to record such modifications or changes in the loan as alter its original type as shown in D above.

Under column 9 indicate the amount in dollars, omitting cents, of any *new appraisal* made in connection with a modification of the loan contract. This will be the combined appraisal of land and buildings.

Schedule J. *Loan Status.* Indicate by year, or by giving the unpaid balance in the case of active loans, the status of the loan.

If the loan resulted in the acquisition of property *and if this property has been sold,* fill out Schedule K, which is on the reverse side of the mortgage card. In all other cases Schedule K is to be ignored.

Schedule K. *Data on Property Acquired and Sold.*

The primary purpose of Schedule K is to get a final figure of loss or gain on properties acquired and sold. This is reported in Item 16. Schedule K has been designed to enable respondents to build up a figure of loss or gain that will be comparable from company to company. However, the records of individual companies may provide a direct figure of loss or gain that is comparable to the one that would be derived under Schedule K, although it might be built up in a different way. In this case it will be sufficient to report the company's available figure directly, but Items 7 and 14 should also be given, wherever possible.

If the figure of loss or gain on property that can be taken directly from a company's records is not comparable to Item 16 in Schedule K, but can readily be adjusted to achieve this comparability, such an adjusted figure will fulfill the needs of this study.

Individual items under Schedule K are defined as follows:

Item (4) This refers to the amount owed by the mortgagor, without giving effect to any write-downs in the book value of the loan made at any time prior to, or at the time of, foreclosure.

Item (5) This refers only to amounts paid out *prior* to foreclosure. Since the purpose is to measure the amount that the mortgagee has invested in a particular item of property, reports should exclude all payments of taxes and insurance for which the mortgagee acted merely as a transmitting agency. Further, amounts paid out prior to foreclosure should not be reported if they were included elsewhere in this schedule (e.g., if they were capitalized and shown in the loan balance given in Item 4).

Item (6) Give the amount of any delinquent interest that was due on the loan at the time it was transferred to real estate, provided this was not added to the loan balance and reported under Item 4. Note that it will be necessary to check under Item 6 if delinquent interest is calculated on a compound interest basis. Do not check if your calculation of delinquent interest is made on the basis of simple interest.

Item (8) Report all foreclosure costs, including legal, court, and advertising costs, incurred in connection with the foreclosure. Whether foreclosure costs are capitalized into the book value of the property or are charged currently against income does not matter for purposes of this schedule. You are asked merely to report the *amount* of the incurred costs.

Item (10) Any recoveries made through deficiency judgments or other settlements should be reported here.

Items (11), (12), and (13) If the income earned from property while held as real estate, and the expenses incurred on it (including expenditures for repairs and permanent improvements, and expenses incurred in connection with the sale of the property), are available separately, these should be recorded as indicated on the schedule. However, if there is available only a figure of net income or loss, this can be reported as such under Item 13 with a plus or minus sign to indicate its character.

Item (14) Report only the sale price of the property. Any expenses in connection with the sale (e.g., commissions) should be reported under Item 12.

Item (16) This summarizes the foregoing items in a figure of final loss or gain. As indicated above, you may build up this figure of loss or gain according to the sequence of items indicated in Schedule K; but if your records provide a direct single figure of loss or gain on the property, this figure may be substituted for Item 16 with a general statement,

> in a note accompanying the group of returned cards, explaining the difference between the process by which this figure was arrived at and the type of calculation indicated in Schedule K. In any case we should like to have a separate reporting of Items 7 and 14.

It will be noted that this schedule ignores changes by adjustment in the book value of real estate. We are doing this because increases in the book value of property, representing a capitalization of costs such as those incurred under Items 5, 6, 8, and 12, will have been provided for by these items; while decreases in the book value of acquired real estate can be ignored in this analysis of sold properties.

APPENDIX B

Supplementary Tables on Mortgage Loan Experience

APPENDIX B

APPENDIX B presents certain data from the urban mortgage loan experience study that were not included in the text. Table B1 gives a summary of the number and amount of loans included in the sample; Tables B2 through B4 classify the data shown in Tables 8, 9, and 10 of Chapter 4 into two broad property types; Table B5 presents the data for Chart 4 of Chapter 4; Tables B6 and B7 give supplementary data useful in connection with footnote 7 of Chapter 4; Table B8 supplies information on original loan amount and lender's investment on foreclosed properties, which may be referred to in connection with Table 27 of Chapter 6; and Tables B9 to B14, inclusive, show, for each of the yield tables of Chapter 6 (Tables 31 to 36), the number and amount of loans upon which were based the yield figures for loans made and extinguished in the period 1920-46, and the foreclosure rates on these loans.

TABLE B1 — SUMMARY OF THE SAMPLE OF URBAN MORTGAGE LOANS RECEIVED FROM 24 LEADING LIFE INSURANCE COMPANIES
(dollar figures in thousands)

	Number	*Original Amount*
Loans Made, 1920-46	8,931	$92,141
Loans not foreclosed	8,200	81,650
Loans foreclosed	731	10,491
Loans Extinguished and Real Estate Sold, 1920-46	5,523	54,847
Loans extinguished	4,810	44,522
Real estate sold	713	10,325
Loans Outstanding and Real Estate Held, Dec. 31, 1946	3,408	37,294
Loans outstanding	3,390	37,128
Real estate held	18	166

TABLE B2 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE, GEOGRAPHIC LOCATION, AND TYPE OF PROPERTY, 1920-46 [a]

(percentage distribution of number and original amount)

GEOGRAPHIC LOCATION	*1920-24*		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
					1-4 Family Dwellings					
CENSUS REGION [b]										
New England	.6%	.8%	2.3%	2.5%	2.6%	3.6%	2.5%	2.7%	2.9%	4.0%
Middle Atlantic	13.1	18.6	21.5	25.7	18.9	26.7	24.2	27.2	15.8	17.0
East North Central	19.7	21.6	23.2	24.5	25.0	24.1	25.5	26.3	20.8	23.1
West North Central	22.1	19.2	9.2	8.5	8.0	6.1	8.6	7.4	7.1	7.0
South Atlantic	14.8	13.9	11.5	11.9	11.7	10.4	14.7	14.7	17.8	16.7
East South Central	10.5	9.3	7.9	6.8	7.2	5.7	6.5	5.2	6.6	5.8
West South Central	5.4	4.7	3.7	3.3	5.2	4.9	6.5	5.8	14.2	13.2
Mountain	2.2	2.0	2.5	1.6	3.1	2.3	2.0	1.5	2.5	1.9
Pacific	11.6	9.9	18.1	15.1	18.2	16.1	9.5	9.2	12.3	11.3
SIZE OF CITY [c]										
1,000,000 and over	15.8	18.4	19.8	22.5	14.8	17.3	16.0	15.8	12.4	12.7
500,000 – 999,999	2.9	6.1	5.8	7.4	5.4	6.5	7.0	7.4	4.7	5.4
250,000 – 499,999	26.3	26.1	24.3	22.7	18.5	17.3	15.9	14.8	18.2	18.1
100,000 – 249,999	24.1	22.7	14.9	13.1	17.6	15.0	13.8	11.6	15.8	14.2
25,000 – 99,999	20.2	17.5	18.3	17.3	23.6	20.9	20.3	19.0	19.2	18.9
10,000 – 24,999	6.0	4.4	9.5	9.1	11.3	11.9	11.1	11.9	10.6	11.4
Under 10,000	4.5	4.6	7.2	7.4	8.7	11.0	15.8	19.4	18.9	19.1

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TABLE B2 – (continued)

GEOGRAPHIC LOCATION	1920-24		1925-29		1930-34		1935-39		1940-46	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
					1-4 Family Dwellings					
SIZE OF DISTRICT [c]										
Metropolitan	*88.2%*	*91.2%*	*88.7%*	*90.1%*	*87.7%*	*90.0%*	*88.5%*	*88.7%*	*81.2%*	*83.4%*
1,000,000 and over	25.1	30.7	38.3	43.3	37.8	44.3	41.6	46.1	31.7	35.1
250,000 – 999,999	32.9	34.9	32.9	31.9	27.0	27.6	29.7	28.5	30.0	30.7
100,000 – 249,999	25.1	21.1	13.7	12.1	18.2	14.8	14.2	11.8	16.2	14.8
50,000 – 99,999	5.1	4.5	3.8	2.8	4.7	3.3	3.0	2.3	3.3	2.8
Non-Metropolitan	*11.8*	*8.8*	*11.3*	*9.9*	*12.3*	*10.0*	*11.5*	*11.3*	*18.8*	*16.6*
25,000 – 49,999	5.8	4.5	4.4	3.6	5.4	4.0	3.8	3.5	4.9	4.2
10,000 – 24,999	4.2	3.0	4.1	3.1	4.1	3.1	3.4	2.7	4.9	4.2
Under 10,000	1.8	1.3	2.8	3.2	2.8	2.9	4.3	5.1	9.0	8.2
					All Other Property					
CENSUS REGION [b]										
New England	.8	.5	1.7	1.7	1.9	10.2	5.8	9.6	4.5	4.4
Middle Atlantic	13.6	22.6	25.1	46.1	11.1	33.4	23.0	44.3	25.0	48.1
East North Central	26.3	29.8	23.0	25.1	38.9	35.3	26.6	10.2	27.2	20.1
West North Central	25.4	18.9	13.8	7.3	14.8	7.0	8.6	2.5	7.1	5.2
South Atlantic	11.9	10.3	10.0	6.0	1.9	.6	8.6	14.0	10.7	7.7
East South Central	4.2	2.1	4.6	1.2	5.6	1.3	2.2	.8	4.0	1.1
West South Central	7.6	8.1	5.9	3.0	1.8	.5	4.3	6.6	5.4	5.9
Mountain	1.7	.7	3.4	1.5	1.8	2.0	2.2	2.5	.9	.7
Pacific	8.5	7.0	12.1	8.0	22.2	9.7	18.0	9.4	14.7	6.7

(concluded on next page)

TABLE B2 — (concluded)

Geographic Location	1920-24		1925-29		1930-34		1935-39		1940-46	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
					All Other Property					
SIZE OF CITY [c]										
1,000,000 and over	23.7%	37.5%	24.7%	40.2%	37.0%	46.6%	38.1%	37.0%	30.0%	31.5%
500,000 – 999,999	7.6	12.3	10.9	11.4	13.0	19.3	10.8	4.1	14.7	22.0
250,000 – 499,999	37.3	27.9	28.0	20.8	20.4	17.2	13.7	8.2	13.4	13.6
100,000 – 249,999	18.7	12.6	14.2	10.7	14.8	4.0	9.4	12.6	11.6	12.2
25,000 – 99,999	7.6	5.5	13.8	13.5	11.1	10.0	18.7	33.2	15.6	9.5
10,000 – 24,999	4.2	3.9	6.7	2.5	1.9	1.5	4.3	1.9	6.3	6.6
Under 10,000	.9	.3	1.3	.8	1.8	1.4	4.3	2.9	8.0	4.5
SIZE OF DISTRICT [c]										
Metropolitan	*93.3*	*94.6*	*91.7*	*96.4*	*96.3*	*95.6*	*92.8*	*92.4*	*90.7*	*96.1*
1,000,000 and over	32.2	44.9	45.2	62.4	55.5	75.8	63.3	65.0	55.8	65.1
250,000 – 999,999	45.8	39.9	34.7	25.9	20.4	10.7	20.9	12.3	26.8	26.4
100,000 – 249,999	14.4	7.9	10.5	6.4	20.4	9.1	5.7	9.0	6.7	4.0
50,000 – 99,999	.9	1.9	1.3	1.7	. .	. .	2.9	6.1	1.4	.6
Non-Metropolitan	*6.7*	*5.4*	*8.3*	*3.6*	*3.7*	*4.4*	*7.2*	*7.6*	*9.3*	*3.9*
25,000 – 49,999	2.5	1.5	4.2	2.2	3.7	4.4	1.4	6.2	2.2	1.3
10,000 – 24,999	4.2	3.9	3.3	1.0	. .	. .	2.2	.7	3.1	.7
Under 10,000	. .	. .	.8	.4	. .	. .	3.6	.7	4.0	1.9

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies.

[b] For a listing of states included in the census regions, see footnote 3 of Chapter 4.

[c] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

TABLE B3 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE, ORIGINAL LOAN AMOUNT, TYPE OF CONTRACT, AND TYPE OF PROPERTY, 1920-46[a]

(percentage distribution of number and original amount)

	1920-24		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
					1-4 Family Dwellings					
ORIGINAL LOAN AMOUNT										
Less than $5,000	71.9%	48.1%	58.9%	36.7%	54.3%	31.9%	50.3%	31.6%	58.9%	43.3%
5,000 – 9,999	23.2	33.6	32.3	39.3	36.5	43.7	41.9	49.1	36.5	44.6
10,000 – 19,999	4.1	10.7	8.1	18.2	8.0	18.2	7.0	16.1	4.2	9.8
20,000 – 49,999	.6	2.9	.6	2.7	1.2	6.2	.8	3.2	.3	1.3
50,000 – 99,999	.1	2.0	.1	1.8	..	..	..	..	.1	1.0
100,000 and over	.1	2.7	b	1.3	..	..	..	..	..	..
Average size of loan	$4,400		$5,400		$5,500		$5,500		$5,100	
TYPE OF CONTRACT										
Straight mortgage	100.0%	100.0%	99.9%	99.9%	97.2%	97.1%	81.6%	85.2%	91.5%	90.9%
Purchase money mortgage	..	..	..	..	2.8	2.9	17.9	14.4	8.3	8.9
Real estate sales contract	..	..	..	..	..	..	.3	.2	.2	.2
					All Other Property					
ORIGINAL LOAN AMOUNT										
Less than $5,000	5.1%	.4%	2.1%	.1%	5.6%	.4%	5.7%	.3%	5.4%	.3%
5,000 – 9,999	14.4	2.2	11.3	1.2	11.1	1.4	14.4	1.6	17.4	1.8
10,000 – 19,999	15.3	4.6	19.2	3.9	25.9	8.1	21.6	4.8	20.5	4.3
20,000 – 49,999	33.0	19.6	36.0	15.6	27.8	16.9	33.1	16.3	26.3	11.8
50,000 – 99,999	14.4	19.1	14.2	14.4	22.2	31.0	10.1	9.4	13.4	13.3
100,000 and over	17.8	54.1	17.2	64.8	7.4	42.2	15.1	67.6	17.0	68.5
Average size of loan	$47,500		$70,100		$49,800		$64,500		$70,200	
TYPE OF CONTRACT										
Straight mortgage	100.0%	100.0%	99.6%	99.5%	98.1%	99.4%	83.5%	81.2%	70.1%	78.1%
Purchase money mortgage	..	..	..	..	1.9	.6	16.5	18.8	28.6	21.5
Real estate sales contract	..	..	..	..	..	..	..	..	1.3	.4

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies.

[b] Less than .05 percent.

TABLE B4 — URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE, LOAN CONTRACT TERMS, AND TYPE OF PROPERTY, 1920-46[a]

(*percentage distribution of number and original amount*)

CONTRACT TERMS	1-4 FAMILY DWELLINGS									
	1920-24		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF LOAN										
Insured										
FHA	..	..	..	..	..	..	32.5%	29.5%	61.2%	54.0%
Veterans' Adm.	..	..	..	..	..	..	..	..	3.6	4.4
Conventional										
Fully amortized	27.5%	21.3%	18.9%	14.3%	33.4%	26.4%	45.0	47.2	31.7	37.0
Partially amortized	56.2	58.8	58.8	61.5	50.3	52.8	20.7	21.0	2.9	3.5
Nonamortized	16.2	19.7	22.2	24.1	16.2	20.1	1.7	2.2	.4	.9
CONTRACT INTEREST RATE										
3.0 – 3.9%	..	..	..	..	..	..	..	..	.3	.5
4.0	..	..	..	..	..	..	.4	.4	11.7	13.5
4.1 – 4.9	..	..	..	..	.1	.1	11.8	12.0	72.7	70.9
5.0	.1	.1	.1	.2	.5	1.2	54.2	56.4	13.1	13.4
5.1 – 5.9	15.1	18.4	21.6	26.9	9.6	11.1	16.2	17.3	1.1	.8
6.0	74.4	72.2	73.8	69.3	81.0	80.1	17.0	13.6	1.0	.8
6.1 and over	10.3	9.3	4.3	3.5	8.7	7.4	.3	.2	[b]	[b]
CONTRACT LENGTH										
0 – 4 years	12.8	14.9	22.9	24.3	18.1	22.4	1.7	2.1	.3	.2
5 – 9	58.5	61.9	47.9	49.0	37.7	38.4	6.5	6.0	1.2	1.0
10 – 14	28.6	23.1	24.8	22.1	23.2	20.1	24.9	22.1	7.9	8.2
15 – 19	.1	.1	4.0	4.1	20.0	17.7	24.8	24.8	19.1	20.4
20 and over	..	..	.1	.2	..	..	41.9	44.8	71.1	68.7
LOAN-TO-VALUE RATIO										
0 – 39%	12.6	12.5	6.6	6.4	6.8	5.5	3.4	2.9	2.0	1.4
40 – 59	61.2	64.6	75.4	78.5	58.2	63.5	25.7	26.9	11.1	11.6
60 – 79	4.5	6.5	6.8	7.5	7.9	9.5	41.9	44.5	26.4	30.7
80 and over					2.0	2.6	28.4	25.3	60.2	55.9

TABLE B4— (concluded)

Contract Terms	All Other Property									
	1920-24		*1925-29*		*1930-34*		*1935-39*		*1940-46*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF LOAN										
Insured										
FHA	..	..	..	..	..	..	3.6%	12.0%	3.1%	7.0%
Veterans' Adm.	..	..	..	..	..	..	..	..	.9	.1
Conventional										
Fully amortized	1.7%	.6%	6.3%	6.2%	3.7%	.8%	22.3	9.1	50.0	38.4
Partially amortized	76.3	74.9	66.1	64.1	68.5	53.3	68.4	73.7	41.5	51.8
Nonamortized	20.3	24.1	27.6	29.7	25.9	45.7	5.0	2.4	2.7	2.5
CONTRACT INTEREST RATE										
3.0 – 3.9%	..	..	..	..	..	..	.7	.2	6.7	15.6
4.0	..	..	.4	2.0	1.9	2.3	4.3	13.0	29.5	31.1
4.1 – 4.9	..	..	..	..	..	..	23.8	25.9	44.2	47.0
5.0	..	..	6.3	21.0	3.7	27.9	51.8	45.6	16.5	4.6
5.1 – 5.9	28.8	39.9	49.8	50.1	29.6	26.6	12.2	8.1	1.3	.3
6.0	57.6	48.3	41.8	26.4	57.4	38.4	6.5	7.2	.9	1.1
6.1 and over	13.6	11.8	1.7	.5	7.4	4.8	.7	[b]	..	..
CONTRACT LENGTH										
0 – 4 years	10.2	13.3	14.2	15.9	9.3	24.4	2.2	.7	.9	.1
5 – 9	73.7	66.6	55.6	48.0	53.7	49.9	17.3	11.9	8.0	4.3
10 – 14	14.4	19.8	24.7	26.9	29.6	19.6	56.1	54.6	42.9	34.9
15 – 19	..	..	3.8	1.6	7.4	6.1	16.5	18.2	34.4	45.5
20 and over	..	..	1.3	7.5	..	..	7.2	14.6	13.8	15.2
LOAN-TO-VALUE RATIO										
0 – 39%	26.3	28.0	16.7	14.6	24.1	41.5	23.0	13.9	9.4	7.4
40 – 59	66.1	62.6	71.1	58.5	70.4	54.4	48.9	42.7	37.9	27.5
60 – 79	5.1	7.5	11.7	26.6	1.8	3.3	15.1	30.0	33.5	49.0
80 and over	2.5	1.9	.4	.3	1.9	.6	10.8	13.2	17.0	13.4

[a] Based on a 1 percent sample of all loans made after January 1, 1920. Percentage distributions do not necessarily add to 100 percent owing to the omission of a few loans because of data inadequacies.

[b] Less than .05 percent.

TABLE B5 — CONTRACT INTEREST RATES, CONTRACT LENGTHS, AND LOAN-TO-VALUE RATIOS ON A SAMPLE OF STRAIGHT URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, 1920-46[a]

	1-4 FAMILY DWELLINGS			ALL OTHER PROPERTY		
		Contract Int. Rates			Contract Int. Rates	
YEAR MADE	*No. of Loans Made*	Annual[b]	3-Year Moving Average[c]	*No. of Loans Made*	Annual[b]	3-Year Moving Average[c]
1920	73	6.1%		13	5.8%	
1921	119	6.2	6.1%	16	6.5	6.0%
1922	170	6.1	6.0	22	5.9	5.9
1923	209	5.9	5.9	29	5.7	5.8
1924	279	5.9	5.9	38	5.8	5.6
1925	358	5.9	5.9	42	5.4	5.6
1926	478	5.8	5.9	49	5.6	5.5
1927	414	5.9	5.9	44	5.5	5.5
1928	411	5.9	5.9	47	5.3	5.5
1929	396	6.0	6.0	56	5.7	5.5
1930	347	6.0	6.0	27	5.9	5.7
1931	299	6.0	6.0	16	5.4	5.6
1932	98	6.0	6.0	7	5.3	5.3
1933	15	5.9	6.0	..	..	5.2
1934	26	5.8	5.6	3	4.5	5.2
1935	64	5.5	5.3	14	5.3	4.9
1936	163	5.2	5.2	21	4.6	5.0
1937	192	5.1	5.1	22	5.1	4.9
1938	255	5.1	5.0	26	4.7	4.9
1939	285	4.9	4.9	33	4.6	4.5
1940	404	4.6	4.7	26	4.4	4.4
1941	584	4.6	4.6	38	4.3	4.4
1942	613	4.5	4.5	22	4.5	4.3
1943	459	4.5	4.5	14	4.2	4.2
1944	286	4.5	4.5	14	3.9	4.0
1945	235	4.4	4.3	18	4.2	4.1
1946	311	4.2	4.3	22	4.2	4.2
1947	72	4.0		1	4.0	

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TABLE B5 – (continued)

Year Made	1-4 Family Dwellings			All Other Property		
		Contract Lengths (years)			*Contract Lengths (years)*	
	No. of Loans Made	Annual[b]	3-Year Moving Average[c]	*No. of Loans Made*	Annual[b]	3-Year Moving Average[c]
1920	73	6.0		13	4.2	
1921	119	7.9	6.9	15	5.4	5.5
1922	170	6.6	6.5	22	6.3	5.9
1923	209	5.9	5.9	28	5.8	6.4
1924	280	5.7	5.8	38	7.0	6.7
1925	358	6.0	5.8	42	6.9	7.2
1926	477	5.9	6.2	49	7.6	7.7
1927	412	6.7	6.4	43	8.3	7.9
1928	410	6.6	6.7	47	7.9	7.8
1929	396	6.8	6.9	56	7.1	7.4
1930	347	7.5	7.3	27	7.0	7.2
1931	295	7.8	7.7	16	8.0	6.4
1932	96	7.9	7.8	7	3.9	5.9
1933	14	6.3	7.7	..	..	4.1
1934	26	7.9	11.0	3	5.6	9.4
1935	64	13.0	14.7	14	9.7	10.1
1936	164	16.2	16.0	21	10.6	11.3
1937	192	16.7	17.0	22	12.2	14.3
1938	254	17.7	17.6	26	22.0	15.5
1939	285	18.3	18.8	33	15.3	16.1
1940	403	19.9	19.8	26	13.9	15.2
1941	582	20.6	20.6	39	17.5	14.8
1942	611	21.1	21.1	22	13.2	15.3
1943	459	21.7	21.5	14	13.6	12.8
1944	286	22.1	21.4	14	12.1	12.4
1945	232	20.1	20.2	18	12.0	16.2
1946	311	18.8	19.3	23	20.2	18.1
1947	72	19.5		1	21.0	

(concluded on next page)

TABLE B5 – (concluded)

Year Made	1-4 Family Dwellings			All Other Property		
	No. of Loans Made	*Loan-to-Value Ratios*		*No. of Loans Made*	*Loan-to-Value Ratios*	
		Annual[b]	3-Year Moving Average[c]		Annual[b]	3-Year Moving Average[c]
1920	49	46%		13	49%	
1921	61	44	46%	16	39	45%
1922	117	47	47	22	47	46
1923	182	48	49	29	50	45
1924	260	50	49	38	40	43
1925	333	49	50	42	42	46
1926	448	51	51	49	52	49
1927	383	51	51	44	52	52
1928	354	53	52	47	53	50
1929	312	52	52	56	44	48
1930	248	53	52	27	45	42
1931	226	52	52	15	33	40
1932	70	49	52	7	40	37
1933	14	46	50	..	..	41
1934	24	53	52	3	48	51
1935	62	53	58	14	51	48
1936	163	61	61	21	46	52
1937	191	64	64	22	56	55
1938	255	67	67	25	64	57
1939	284	69	70	33	54	58
1940	402	73	73	26	57	57
1941	586	76	77	39	61	58
1942	609	80	78	22	57	58
1943	459	81	81	14	53	54
1944	286	82	80	14	53	56
1945	235	76	78	18	61	56
1946	311	75	75	23	57	58
1947	72	69		1	60	

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[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Annual averages of interest rates, contract lengths, and loan-to-value ratios are weighted in each case by each loan's original amount.

[c] Three-year moving averages of interest rates, contract lengths, and loan-to-value ratios are weighted in each case by three-year moving averages of original loan amounts.

TABLE B6 — NUMBER AND ORIGINAL AMOUNT OF URBAN MORTGAGE LOANS MADE, 1920-46, AND OF LOANS OUTSTANDING AT THE END OF 1946 ON A SAMPLE OF LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY PERIOD MADE [a]

(dollar figures in thousands)

PERIOD MADE	*All Loans Made, 1920-46*		*Loans Outstanding, Dec. 1946* [b]			*Loans Outstanding as % of All Loans Made*		*Amount Outstanding, Dec. 1946 as % of Original Amount*
	Number	Original Amount	Number	Original Amount	Amount Outstanding	Number	Original Amount	
1920-24	969	$9,382	31	$694	$400	3.2%	7.4%	57.6%
1925-29	2,300	27,829	198	4,027	1,990	8.6	14.5	49.4
1930-34	863	7,136	92	926	526	10.7	13.0	56.9
1935-39	1,316	15,493	540	7,715	5,583	41.0	49.8	72.4
1940-46	3,467	32,226	2,518	23,714	20,709	72.6	73.6	87.3
Period not available	16	75	11	52	41	68.8	69.3	80.8
Total	8,931	$92,141	3,390	$37,128	$29,249	38.0%	40.3%	78.8%

[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Excludes eighteen properties still held as real estate at the end of 1946.

TABLE B7 — AVERAGE EXPECTED AND REALIZED MATURITIES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 24 LEADING LIFE INSURANCE COMPANIES, 1920-34 *

PERIOD MADE	1-4 FAMILY DWELLINGS			ALL OTHER PROPERTY			ALL PROPERTY		
	No. of Loans	*Average Maturity (years)*		*No. of Loans*	*Average Maturity (years)*		*No. of Loans*	*Average Maturity (years)*	
		Expected	Realized		Expected	Realized		Expected	Realized
1920-24	825	6.3	7.6	107	6.0	8.1	932	6.1	7.9
1925-29	1,885	6.5	9.2	198	7.0	12.0	2,083	6.7	10.8
1930-34	719	8.1	8.0	45	6.5	9.5	764	7.5	8.6
1920-34	*3,429*	*6.8*	*8.6*	*350*	*6.7*	*10.8*	*3,779*	*6.7*	*9.8*
Defaulted loans	600	6.3	11.5	81	6.8	15.3	681	6.6	13.9
All other	2,829	6.9	7.8	269	6.6	8.8	3,098	6.8	8.3

* Based on a 1 percent sample of all loans made after January 1, 1920. Averages are weighted by each loan's original amount; only loans made by the end of 1934 and extinguished by the end of 1946 are included in the analysis. The sample excludes a few loans for which data on average maturity were not available.

TABLE B8 — Number and Original Loan Amount of Foreclosed Properties and Lender's Investment at Foreclosure on a Sample of Urban Mortgage Loans Made by 24 Leading Life Insurance Companies, Classified by Type of Property and Period of Loan Origination and Property Disposal, 1920-46 [a]

(dollar figures in thousands)

Period of Loan Origination	*Period of Property Disposal*	*1-4 Family Dwellings*			*All Other Property*		
		No.	Orig. Loan Amt.	Lender's Investment	No.	Orig. Loan Amt.	Lender's Investment
1920-24	1930-34	6	$23	$24	..	..	..
	1935-39	21	153	117	4	$214	$331
	1940-46	18	125	128	7	214	275
	1930-46	*45*	*301*	*269*	*11*	*428*	*606*
1925-29	1925-29	1	7	8	..	..	..
	1930-34	37	202	207	3	67	66
	1935-39	189	973	1,034	18	1,335	1,362
	1940-46	192	1,275	1,393	41	4,362	4,665
	1925-46	*419*	*2,457*	*2,642*	*62*	*5,764*	*6,093*
1930-34	1930-34	5	43	44	..	..	..
	1935-39	70	463	528	3	71	90
	1940-46	62	416	466	5	165	191
	1930-46 [b]	*138*	*925*	*1,041*	*8*	*236*	*281*
1935-39	*1935-46* [c]	*19*	*119*	*123*	*1*	*40*	*32*
1940-46	*1940-46*	*8*	*33*	*33*	2	22	22
	Total	629	$3,835	$4,108	84	$6,490	$7,034

[a] Based on a 1 percent sample of all loans made after January 1, 1920.

[b] Includes one loan for which period of property disposal was not available.

[c] Includes two one- to four-family dwellings sold in 1935-39; the other properties were sold in 1940-46.

TABLE B9 — FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, 1920-46[a]

(dollar figures in thousands)

Type of Property	*Loans Made and Extinguished*		*Foreclosure Rate*[b]	
	No.	Original Amount	No.	Original Amount
1-4 Family Dwellings	5,035	$25,753	12.5%	14.9%
1 family[c]	4,627	22,243	11.1	12.7
2-4 family[c]	371	2,783	28.0	30.9
1-4 family with business use	37	727	29.7	19.9
All Other Property	481	29,066	17.5	22.3
Apartments	250	12,998	21.2	31.6
Stores	145	8,310	17.2	21.9
Other income property	86	7,758	7.0	7.2
Total	5,516	$54,819	12.9%	18.8%

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[a] Based on a 1 percent sample of all loans made after January 1, 1920; only loans extinguished by 1946 are included in this tabulation. Excludes seven extinguished loans for which data necessary for the calculation of yields were inadequate.

[b] Refers exclusively to loans giving rise to properties sold before the end of 1946.

[c] With no business use.

TABLE B10 — FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD OF ORIGINATION AND EXTINGUISHMENT, 1920-46[a]

(*dollar figures in thousands*)

PERIOD MADE	PERIOD EXTINGUISHED	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
		Loans Made and Extinguished		*Foreclosure Rate*[b]		*Loans Made and Extinguished*		*Foreclosure Rate*[b]	
		No.	Orig. Amt.	No.	Orig. Amt.	No.	Orig. Amt.	No.	Orig. Amt.
1920-24	1920-24	93	$337	.0%	.0%	11	$510	.0%	.0%
	1925-29	445	1,961	.0	.0	58	2,895	.0	.0
	1930-34	138	592	4.3	3.9	2	134		
	1935-39	86	385	24.4	39.7	17	778	23.5	27.4
	1940-46	63	345	28.6	36.2	20	731	35.0	29.3
	1920-46	*825*	*3,620*	*5.5*	*8.3*	*108*	*5,048*	*10.2*	*8.5*
1925-29	1925-29	234	1,213	.4	.6	20	1,540	.0	.0
	1930-34	559	2,785	6.6	7.3	34	1,895	8.8	3.5
	1935-39	577	2,977	32.8	32.7	54	2,775	33.3	48.1
	1940-46	516	2,990	37.2	42.6	90	7,432	45.6	58.7
	1925-46	*1,886*	*9,965*	*22.2*	*24.6*	*198*	*13,642*	*31.3*	*42.3*
1930-34	1930-34	114	606	4.4	7.0	2	295	16.7	8.8
	1935-39	319	1,603	21.9	28.9	16	516		
	1940-46	289	1,635	21.5	25.4	27	1,540	18.5	10.7
	1930-46	*722*	*3,844*	*19.0*	*24.0*	*45*	*2,351*	*17.8*	*10.0*
1935-39	1935-39	76	423	2.6	2.6	10	439	.0	.0
	1940-46	613	3,283	2.8	3.3	70	3,595	1.4	1.1
	1935-46	*689*	*3,706*	*2.8*	*3.2*	*80*	*4,034*	*1.3*	*1.0*
1940-46	*1940-46*	*899*	*4,548*	*.9*	*.7*	*48*	*3,957*	*4.2*	*.6*
	Total	5,035	$25,753	12.5%	14.9%	481	$29,066	17.5%	22.3%

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[a] Based on a 1 percent sample of all loans made after January 1, 1920; only loans extinguished by 1946 are included. Excludes seven extinguished loans for which necessary data were inadequate. [b] Refers to loans giving rise to properties sold before the end of 1946.

TABLE B11 — FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY, PERIOD MADE AND TYPE OF LOAN, 1920-46 [a]

(dollar figures in thousands)

PERIOD MADE AND TYPE OF LOAN	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
	Loans Made and Extinguished		*Foreclosure Rate* [b]		*Loans Made and Extinguished*		*Foreclosure Rate* [b]	
	No.	Original Amount	No.	Original Amount	No.	Original Amount	No.	Original Amount
1920-24								
Fully amortized	233	$804	1.3%	2.8%	2	$33	9.8%	9.5%
Partially amortized	469	2,158	5.1	7.7	80	3,645		
Nonamortized	122	651	14.8	17.2	24	1,350	12.5	5.7
1925-29								
Fully amortized	377	1,483	11.7	12.5	14	443	14.3	16.1
Partially amortized	1,131	6,288	23.2	25.4	130	9,065	35.4	44.8
Nonamortized	376	2,187	30.1	30.9	54	4,133	25.9	39.4
1930-34								
Fully amortized	262	1,142	16.0	18.0	2	22	21.9	17.2
Partially amortized	372	2,112	16.9	20.7	30	1,229		
Nonamortized	87	559	35.6	44.3	12	1,094	8.3	1.8
1935-39								
Fully amortized	301	1,676	1.7	2.9	18	505	.0	.0
Partially amortized	170	926	7.6	7.1	53	2,514	.0	.0
Nonamortized	12	81	.0	.0	6	200	16.7	20.0
FHA	205	1,019	.5	.5	2	565	.0	.0

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TABLE B11 – (concluded)

Period Made and Type of Loan	1-4 Family Dwellings				All Other Property			
	Loans Made and Extinguished		*Foreclosure Rate* [b]		*Loans Made and Extinguished*		*Foreclosure Rate* [b]	
	No.	Original Amount	No.	Original Amount	No.	Original Amount	No.	Original Amount
1940-46								
Fully amortized	264	$1,581	1.1%	.8%	31	$3,022	3.2%	.5%
Partially amortized	36	217	.0	.0	13	916	7.1	.8
Nonamortized	7	122	.0	.0	1	3		
FHA	588	2,617	.9	.8	2	9	.0	.0
1920-46								
Fully amortized	1,445	6,727	6.7	7.0	67	4,025	6.0	2.2
Partially amortized	2,180	11,711	16.6	19.4	308	17,403	19.8	26.6
Nonamortized	605	3,602	26.8	28.7	97	6,780	19.6	26.1
FHA	795	3,647	.8	.7	4	574	.0	.0

[a] Based on a 1 percent sample of all loans made after January 1, 1920; only loans extinguished by 1946 are included in this tabulation. Excludes seven extinguished loans for which data necessary for the calculation of yields were inadequate, fourteen extinguished loans for which loan type was not available, and sixteen for which period made was not available.

[b] Refers exclusively to loans giving rise to properties sold before the end of 1946.

TABLE B12 — FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND GEOGRAPHIC LOCATION, 1920-46 [a]

(dollar figures in thousands)

GEOGRAPHIC LOCATION	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
	Loans Made and Extinguished		*Foreclosure Rate* [b]		*Loans Made and Extinguished*		*Foreclosure Rate* [b]	
	No.	Original Amount	No.	Original Amount	No.	Original Amount	No.	Original Amount
CENSUS REGION [c]								
New England	98	$745	22.4%	16.1%	10	$748	20.0%	12.3%
Middle Atlantic	820	5,224	23.3	25.6	79	11,197	30.4	31.4
East North Central	1,191	6,504	14.5	16.1	133	7,044	16.5	12.9
West North Central	574	2,539	5.7	7.3	70	2,249	17.1	16.2
South Atlantic	697	3,436	8.6	10.4	48	2,534	6.3	17.5
East South Central	409	1,779	13.7	14.4	25	435	12.0	9.5
West South Central	330	1,522	6.7	7.7	30	1,631	20.0	19.9
Mountain	126	456	4.8	5.3	15	669	.0	.0
Pacific	788	3,531	8.1	10.6	68	2,533	16.2	31.1
Unknown	2	17	50.0	72.7	3	26	33.3	32.3
SIZE OF CITY [d]								
1,000,000 and over	778	4,430	20.4	22.0	118	10,359	16.9	28.4
500,000 – 999,999	269	1,790	11.5	12.9	52	5,065	21.2	21.2
250,000 – 499,999	1,127	5,483	11.4	14.0	132	5,254	15.9	15.1
100,000 – 249,999	888	4,016	10.5	12.8	71	3,200	21.1	23.7
25,000 – 99,999	991	4,724	10.8	13.3	66	4,027	13.6	17.6
10,000 – 24,999	488	2,548	11.5	13.8	30	965	20.0	20.1
Under 10,000	486	2,700	10.3	12.3	9	171	11.1	4.2
Unknown	8	62	37.5	53.0	3	26	33.3	32.3

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TABLE B12 – (concluded)

GEOGRAPHIC LOCATION	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
	Loans Made and Extinguished		*Foreclosure Rate* [b]		*Loans Made and Extinguished*		*Foreclosure Rate* [b]	
	No.	Original Amount	No.	Original Amount	No.	Original Amount	No.	Original Amount
SIZE OF DISTRICT [d]								
Metropolitan	*4,387*	*$22,954*	*13.0%*	*15.3%*	*439*	*$27,219*	*17.8%*	*23.1%*
1,000,000 and over	1,715	10,108	16.3	18.8	202	16,807	20.8	25.8
250,000 – 999,999	1,593	8,237	11.2	12.9	174	7,326	16.1	17.6
100,000 – 249,999	872	3,788	10.2	12.4	57	2,538	12.3	18.9
50,000 – 99,999	207	821	10.1	11.2	6	548	16.7	32.0
Non-Metropolitan	*648*	*2,799*	*9.1*	*11.2*	*42*	*1,847*	*14.3*	*11.3*
Total	5,035	$25,753	12.5%	14.9%	481	$29,066	17.5%	22.3%

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[a] Based on a 1 percent sample of all loans made after January 1, 1920; only loans extinguished by 1946 are included in this tabulation. Excludes seven extinguished loans for which data necessary for the calculation of yields were inadequate.

[b] Refers exclusively to loans giving rise to properties sold before the end of 1946.

[c] For a listing of states included in each of the census regions, see footnote 3 of Chapter 4.

[d] Loans are classified according to the 1940 population of the cities in which the properties securing them are located.

TABLE B13 — FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND ORIGINAL LOAN AMOUNT, 1920-46 [a]

(dollar figures in thousands)

ORIGINAL LOAN AMOUNT	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
	Loans Made and Extinguished		*Foreclosure Rate* [b]		*Loans Made and Extinguished*		*Foreclosure Rate* [b]	
	No.	Original Amount	No.	Original Amount	No.	Original Amount	No.	Original Amount
Under $5,000	3,080	$10,161	9.7%	10.3%	25	$86	8.0%	9.7%
5,000 - 9,999	1,601	10,359	15.9	16.7	67	470	11.9	13.0
10,000 - 19,999	318	3,870	20.8	21.4	96	1,396	11.5	11.8
20,000 - 49,999	28	682	32.1	33.0	153	4,664	22.9	23.9
50,000 - 99,999	6	431	.0	.0	67	4,450	19.4	19.2
100,000 and over	2	250			73	18,000	20.5	23.8
Total	5,035	$25,753	12.5%	14.9%	481	$29,066	17.5%	22.3%

[a] Based on a 1 percent sample of all loans made after January 1, 1920; only loans extinguished by 1946 are included in this tabulation. Excludes seven extinguished loans for which data necessary for the calculation of yields were inadequate.

[b] Refers exclusively to loans giving rise to properties sold before the end of 1946.

TABLE B14 — FORECLOSURE RATES ON A SAMPLE OF URBAN MORTGAGE LOANS MADE 1920-29 AND EXTINGUISHED BY 1946 BY 24 LEADING LIFE INSURANCE COMPANIES, CLASSIFIED BY TYPE OF PROPERTY AND LOAN CONTRACT TERMS[a]

(dollar figures in thousands)

CONTRACT TERMS	1-4 FAMILY DWELLINGS				ALL OTHER PROPERTY			
	Loans Made and Extinguished		*Foreclosure Rate*[b]		*Loans Made and Extinguished*		*Foreclosure Rate*[b]	
	No.	Original Amount	No.	Original Amount	No.	Original Amount	No.	Original Amount
LOAN-TO-VALUE RATIO								
0 – 39%	234	$1,112	12.0%	18.6%	62	$3,421	8.1%	2.7%
40 – 79[c]	2.067	11,044	19.7	22.0	244	15.269	27.9	40.0
Unknown	410	1,429	7.1	8.5	..	..	..	..
CONTRACT LENGTH								
0 – 4 years	492	2.711	24.4	25.7	42	3.181	19.0	27.5
5 – 9	1,413	7.314	17.2	20.6	188	9.947	22.3	37.3
10 – 14	724	3.127	10.8	14.0	64	4.950	32.8	31.0
15 – 19[d]	80	421	28.8	27.1	10	590	20.0	12.1
Unknown	2	12	.0	.0	2	22	.0	.0
Total	2.711	$13.585	17.1%	20.3%	306	$18.690	23.9%	33.1%

[a] Based on a 1 percent sample of all loans made after January 1, 1920; only loans made in 1920-29 and extinguished by 1946 are included in this tabulation. Excludes ten extinguished loans for which data necessary for the calculation of yields were inadequate or the period of loan extinguishment was unknown.

[b] Refers exclusively to loans giving rise to properties sold before the end of 1946.

[c] Includes three loans on one- to four-family dwellings and four loans on income-producing properties which had loan-to-value ratios of 80 percent and over.

[d] Includes two loans on one- to four-family dwellings and one loan on income-producing properties which were made with contract lengths of twenty years and over.

APPENDIX C

Urban Cost Schedules for 1945 and 1946 and Instructions for 1946 Schedule

National Bureau of Economic Research
Financial Research Program

Company Code No.....

SCHEDULE FOR COST DATA ON CITY MORTGAGE FINANCING BY LIFE INSURANCE COMPANIES, 1945

PART I — GENERAL DATA

(Report amounts in dollars only; omit cents.)

	City Mortgage Loans	
	Number	Amount
1. Mortgage loan balances outstanding		
December 31, 1944		$
December 31, 1945		
2. Book value of real estate sales contracts outstanding		
December 31, 1944		
December 31, 1945		
3. Mortgage loans made during 1945 — total		
a. New loans made, including increases in outstanding balances		
b. All other loans made, i.e., refinancing, renewals, and extensions		
4. Real estate owned		
December 31, 1944		
December 31, 1945		
5. Real estate acquired during 1945		
6. Real estate sold during 1945 — total		
a. Under sales contract on December 31, 1944 . . .		
b. Not under sales contract on December 31, 1944 . .		
7. Gross income from mortgage loans and real estate contracts during 1945 — total	x x x	
a. Interest income on loans *	x x x	
b. Prepayment penalties	x x x	
c. Interest on real estate sales contracts	x x x	
d. Other income	x x x	
8. Net profit or loss on sale of real estate during 1945 . . .	x x x	
9. Net income on real estate owned during 1945	x x x	
10. Net change by adjustment during 1945:		
a. Increase or decrease in book value of city real estate, including acquisition costs and advances charged off and changes by adjustment in book value	x x x	
b. Increase or decrease in book value of city mortgage loans, excluding write-downs of book value made in connection with the amortization of premiums paid on the acquisition of loans	x x x	

* Interest income on mortgage loans is reported net ..... / gross.... of participation in interest by correspondents or others. (Check one.)

(continued on next page)

CITY COST SCHEDULE, 1945 (continued)

PART II — Cost Data, Covering the Year 1945

(Report amounts in dollars only; omit cents.)

	City Mortgage Loans
1. Expenses of operating branch offices — total	$
a. City loan acquisition and servicing costs — total . . .	
(1) Loan acquisition costs	
(2) Servicing costs	
b. Branch office city real estate administrative costs . .	
2. Commissions and premiums paid to correspondents and others at time of acquisition of city mortgages — total . . .	
3. Commissions paid to brokers and others in connection with the sale of city real estate — total	
4. Servicing and other fees paid to correspondents and others on a continuing basis — total	
5. Expenses of operating home office city mortgage loan department and general administrative expenses — total	
a. Home office city mortgage department costs — total .	
(1) Loan acquisition and servicing costs — total . .	
(i) Loan acquisition costs	
(ii) Loan servicing costs	
(2) City real estate management costs	
(3) Expenses of legal, audit, and other services supplied by another division of company	
b. General home office administrative expenses . . .	

PART III — General Questions

(Report amounts in dollars only; omit cents.)

1. Total admitted assets of company, as of December 31, 1945	$
2. a. *All* real estate sales contracts outstanding at end of 1945:	
Book value	
Amount actually due company	
b. Real estate sales contracts outstanding *on which interest income was not yet being earned* at end of 1945:	
Book value	
Amount actually due company	
3. State, or estimate as nearly as possible:	
a. Amount of city mortgages closed during 1945 which were acquired through:	
(1) Correspondents or other outside agents	
(2) Branch office operations	
(3) Home office operations	
b. Amount of city mortgage loan balances outstanding at end of 1945 which were serviced during the year through:	
(1) Correspondents or other outside agents	
(2) Branch office operations	
(3) Home office operations	

(concluded on next page)

CITY COST SCHEDULE, 1945 (concluded)

PART III — General Questions (concluded)

4. Number of branches: (a) originating city loans in 1945 . . . ________

   (b) servicing city mortgage loans in 1945 ________

5. Number of correspondents or other outside agents:

   (a) from whom city mortgage loans were acquired in 1945 . ________

   (b) who serviced city mortgage loans in 1945 . . . . ________

6. How many years do you estimate that city loans made during 1945 will remain among the company's assets, on present and probable future conditions? . . . . ________years

7. If you follow the practice of amortizing premiums and commissions paid for the acquisition of loans over a period of years, what expected period are you now using on city loans? . . . . ________years

8. Have you arrived at a figure representing the risk factor? If so, indicate the percent of the principal per annum which you think fairly represents the risk inherent in city mortgage loans . . . ________%

National Bureau of Economic Research
Financial Research Program

Company Code No.....

SCHEDULE FOR COST DATA ON CITY MORTGAGE LENDING BY LIFE INSURANCE COMPANIES, 1946

PART I — General Data

(Report amounts in dollars only; omit cents.)

	City Mortgage Loans	
	Number	Amount (in dollars)
1. Mortgage loan and real estate sales contract balances outstanding		
December 31, 1945		$
December 31, 1946		
2. Mortgage loans made during 1946 — total	x x x	
a. New loans made, including increases in outstanding balances	x x x	
b. All other loans made, i.e., refinancing, renewals, and extensions	x x x	
3. Gross income from mortgage loans and real estate sales contracts during 1946 — total *	x x x	
4. City mortgage loans closed during 1946 which were acquired through correspondents or other outside agents	x x x	
5. City mortgage loan balances outstanding at end of 1946 which were serviced through correspondents or other outside agents	x x x	$

6. Total admitted assets as of December 31, 1946 . . . . $..............

* Interest income on loans is reported net ..... / gross.... of servicing fees paid to correspondents or others. (Check one.)

PART II — Cost Data, Covering the Year 1946

(Report amounts in dollars only; omit cents.)

	City Mortgage Loan Costs (in dollars)
1. Branch office city loan acquisition and servicing costs . . .	$
2. Originating fees and premiums paid to correspondents and others at time of acquisition of city mortgages	
3. Service fees and other compensation paid to correspondents and others on a continuing basis	
4. Expenses of operating home office city mortgage loan department and general administrative expenses — total	
a. Home office city mortgage department costs—total .	
(1) Loan acquisition and servicing costs	
(2) Expenses of legal, audit, and other services supplied by another division of company	
b. General home office administrative expenses . . .	

NOTES AND DEFINITIONS TO BE FOLLOWED IN REPORTING CITY MORTGAGE LENDING COSTS OF LIFE INSURANCE COMPANIES, AND CHECK LIST OF MORTGAGE LENDING COSTS

PART I — GENERAL DATA

Item 1

This combined figure can be taken from the Annual Statement. The amount of outstanding loan balances included in Item 1 is the book value, at year end, of owned mortgages reported as "other than farm mortgages" in item 23 of Schedule B — Part 1 — Section 1 of the Annual Statement; the number of city mortgages owned can be taken from Schedule B — Part 1 — Section 2 of the Annual Statement. The number and amount of real estate sales contract balances outstanding are the number of items and the book value of city properties held under sales contract as these are reported in items c,7 and d,7 of Schedule A — Part 1 of the Annual Statement.

Item 2a

The amount of new city mortgage loans made during the year, and increases in outstanding balances under these loans, can be determined by adding items 2 to 7, inclusive, of Schedule B — Part 1 — Section 1 of the Annual Statement, for "other than farm mortgages." These are (i) loans in cash, or granted on disposal of real estate, (ii) amount of mortgages, insured and other, purchased, (iii) additional cash loaned on refunded mortgages, (iv) interest covered by increase in, or refunding of, mortgages, (v) taxes covered by increase in, or refunding of, mortgages, and (vi) other items covered by increase in, or refunding of, mortgages.

Where refunding or extension of a mortgage involved the advance of additional cash, the amount of additional cash advanced should, as indicated in the preceding paragraph, be included in Item 2a. However, the amount of such a transaction, which consists merely of the refunding of an existing balance, should be included under Item 2b, below.

Item 2b

Include under this heading (i) all refundings, renewals, and extensions involving no advance of additional cash, and (ii) that portion of refunded loans involving an advance of additional cash, which consists merely of the refunding of existing loan balances.

Item 3

Income should be reported on a *current* basis, including only actual collections and excluding accruals. Income received in the form of prepayment premiums should be included, along with interest income. Wherever possible income should be given before deduction of any servicing fees or other compensation paid to correspondents and others on a continuing basis. Amounts actually retained by, or paid to, correspondents during the year under a loan servicing agreement should be interpreted as a cost and included among the cost data in Part II of this schedule. *It should be indicated in the footnote to Item 3 whether income reported is gross or net of servicing fees paid to correspondents or others.*

Interest income on real estate sales contracts should be reported *net* of any amounts expended for taxes, repairs, and other expenses, if there are such. Income, *other than* *interest income,* on sales contracts should be excluded, as should down payments and other payments on principal under sales contracts.

Item 4
Report the amount of all city mortgages closed during 1946 that were acquired through correspondents or other outside agents.

Item 5
Report the amount of all city mortgage loan balances outstanding as of the end of 1946 that were serviced through correspondents or other outside agents.

Item 6
Give total admitted assets as reported in Part 1 of the Annual Statement.

PART II — COST DATA

Item 1
This item refers to those expenses of operating branch offices that are properly attributable to the conduct of city mortgage lending activities. Branch office costs should include only those amounts *actually disbursed* during the year, such as salaries of branch office personnel, rent, light, telephone, travel, and miscellaneous office expenditures whether paid from the home office or in the field. (See appended check list of mortgage lending costs.) Any expenses incurred in supervising city loan branch office operations from the home office should be considered a home office expense. *Exclude all expenses incurred by branch offices in connection with the operation and management of owned real estate.*

Item 2
Originating fees paid to correspondents and others at the time of acquisition of loans, including premiums paid in connection with the purchase of mortgage loans, should be reported on a *current* basis. Include under this heading all disbursements actually made during the current year, whether from branch offices or home office, regardless of the fact that it might be the company's policy to amortize these over a period of years. Likewise, the report should exclude all charges against income during the current year arising out of the amortization of such commissions or premiums actually disbursed in earlier years. As in Item 1, above, include only those expenses for which disbursements have actually been made, excluding amounts for which commitments have been made but which have not yet been disbursed.

Item 3
Fees for servicing loan balances and other compensation paid to correspondents and others on a continuing basis should be reported here as distinct from lump-sum payments paid at the time a loan is acquired which are reported in Item 2 above. In connection with the compilation of data on servicing fees see the note referring to Item 3 of Part I above.

Item 4a
All operating expenses incurred *directly* by the city mortgage loan department in acquiring and servicing mortgage loan balances should be included under heading (1). These costs would include charges for salaries, space, light, heat, maintenance, travel, office supplies, etc. (See appended check list of mortgage lending costs.) If officers or

other personnel of the city mortgage loan department spend part of their time on activities *outside* of this department (e.g., on farm mortgages or on the bond account) their salaries should be prorated according to an estimate of how their time is divided. All expenses incurred by the city loan department in connection with the operation and management of owned real estate should be *excluded* here.

If legal, auditing, and other services are supplied to the city mortgage loan department by *other* departments of the company, the expenses of operating such departments should be prorated and included under subhead (2).

Item 4b

General home office administrative expenses should include *only* fees paid in connection with the Investment, Finance, or Mortgage Loan Committee and other expenses of this Committee. Where the Committee involved has responsibilities over investments other than city mortgage loans, its expenses should be prorated according to the proportion of city mortgages and city real estate owned to the total investment for which the Committee was responsible at the end of 1946.

CHECK LIST OF MORTGAGE LENDING COSTS

In preparing data for the schedule of mortgage lending costs, it may be helpful for companies to refer to the following check list of types of operating costs which is meant to illustrate the various kinds of costs that might be included in the expenses of operating branch offices and the home office city loan department. The list is given only for reference and to obviate the possibility of significant items of cost being overlooked in the compilation of cost reports; *it is not expected that costs will be broken down according to these categories.*

Check list of costs

1. Salaries
2. Rent, heat, and light
3. Telephone and telegraph
4. Postage and express
5. Supplies, including printing
6. Rental and servicing of office equipment
7. Repairs: furniture and fixtures
8. Depreciation: furniture, equipment, and fixtures
9. Advertising
10. Credit reports
11. Revenue stamps
12. Checking taxes
13. Recording and/or filing fees
14. Title examinations
15. Employee bonds and insurance
16. Dues and subscriptions
17. Travel
18. Car expense
19. Entertaining, suppers, etc.
20. Donations and charity
21. Lunch room, infirmary, and other employee welfare expenses
22. Other expenses, not elsewhere classified

APPENDIX D

Supplementary Tables of Lending Costs and Returns for Individual Companies, 1945-47

APPENDIX D

THIS appendix gives urban mortgage income and cost ratios and turnover periods for all individual insurance companies submitting complete reports in 1945, 1946, or 1947. The forty-eight companies reporting complete returns for 1945, the fifty companies reporting for 1946, and the forty-three companies reporting for 1947 are classified according to the size of the company's average loan portfolio in the first year in which the company reports full data. Because the size classifications are so broad, most companies fall within the same classification each year. However, four companies with portfolios between $5 and $20 million in 1946 expanded their portfolios sufficiently so that in 1947 their portfolios were slightly over $20 million. Likewise, one company with a portfolio between $20 and $100 million in 1946 reported an average portfolio over $100 million in 1947.

The companies are identified so that changes from one year to another in income and cost ratios for a particular company may be compared. For example, Company A in Table D1 is the same as Company A in Table D3. Those companies excluded from the weighted averages in Table 19 of the text are indicated by footnote.

For an explanation of turnover periods, see the footnote to Table 21 of Chapter 5.

TABLE D1 — GROSS INCOME, COSTS, AND NET INCOME IN PERCENT OF URBAN MORTGAGE LOAN AND REAL ESTATE SALES CONTRACT INVESTMENT, AND PORTFOLIO TURNOVER PERIODS, 1945

(35 companies not operating branches)

Company	*Gross Income*	*Total Costs*	*Originating Fees*[a]	*Servicing Fees*[a]	*Home Office Expenses*[b]	*Net Income*[b]	*Turnover Periods (years)*
			Portfolios Under $5 Million				
A	4.72%	1.16%	.40%	.36%	.40%[c]	3.56%[c]	6.2
B	5.22	1.05	.26	.00	.79[c]	4.17[c]	3.4
C	4.67	1.71	.43	.42	.86	2.96	4.3
D	4.24	.86	.35	.00	.51	3.38	5.2
E	4.56	1.13	.16	.67	.30	3.43	6.0
F	4.36	2.30	1.54	.43	.33[c]	2.06[c]	6.7
G	4.77	1.06	.00	.00	1.06[c]	3.71[c]	14.5
H[d]	3.99	.28	.03	.00	.25	3.71	2.5
I[d]	4.09	2.01	.34	.00	1.67	2.08	4.4
J[d]	4.51	.94	.08	.35	.51	3.57	4.0
K[d]	4.57	.75	.13	.54	.08	3.82	5.5
L[d]	5.05	1.55	.23	.50	.82	3.50	5.7
M[d]	5.27	1.25	.00	.00	1.25	4.02	3.0
			Portfolios of $5-20 Million				
T	4.71	.73	.21	.20	.32	3.98	2.8
U	4.32	1.19	.55	.37	.27	3.13	5.7
V	4.49	1.27	.57	.29	.41[c]	3.22[c]	6.5
W	4.45	1.08	.12	.45	.51	3.37	4.9
X	4.62	1.22	.48	.50	.24	3.40	4.9
Y	4.50	.95	.34	.50	.11[c]	3.55[c]	5.1
Z[d]	4.73	1.23	.39	.40	.44	3.50	3.7
AA[d]	5.69	.83	.06	.04	.73	4.86	n.a.
AB[d]	4.96	.80	.11	.39	.30	4.16	5.2
AC[d]	4.42	.84	.35	.14	.35[c]	3.58[c]	3.0

TABLE D1 — (concluded)

Company	*Gross Income*	*Total Costs*	*Originating Fees* [a]	*Servicing Fees* [a]	*Home Office Expenses* [b]	*Net Income* [b]	*Turnover Periods (years)*
			Portfolios of $20-100 Million				
AK	5.03%	.83%	.08%	.26%	.49%	4.20%	6.1
AL	4.43	.90	.12	.50	.28	3.53	6.5
AM	4.32	.47	.05	.19	.23	3.85	8.9
AN	4.62	.57	.10	.21	.26 [c]	4.05 [c]	9.2
AO	4.07	.34	.10	.13	.11 [c]	3.73 [c]	9.3
AP	4.64	2.13	.43	.49	1.21 [c]	2.51 [c]	4.6
AQ	4.27	.65	.10	.38	.17	3.62	7.2
AR	4.18	.34	.06	.10	.18 [c]	3.84 [c]	10.5
AS [d]	4.51	.70	.14	.25	.31	3.81	n.a.
			Portfolios of $100 Million and Over				
AV	4.20	.46	.06	.27	.13	3.74	7.3
AW	4.33	.84	.19	.42	.23	3.49	7.6
AX	4.16	.56	.02	.19	.35	3.60	6.4

[a] Represents fees, commissions, and premiums paid to correspondents and to other outside agents.
[b] Excludes real estate managament costs except as indicated.
[c] Includes real estate management costs.
[d] Excluded from the weighted averages in Table 19 of Chapter 5.

TABLE D2 — GROSS INCOME, COSTS, AND NET INCOME IN PERCENT OF URBAN MORTGAGE LOAN AND REAL ESTATE SALES CONTRACT INVESTMENT, AND PORTFOLIO TURNOVER PERIODS, 1945

(13 companies operating branches)

Company	*Gross Income*	*Total Costs*	*Branch Office Expenses* [a]	*Originating Fees* [b]	*Servicing Fees* [b]	*Home Office Expenses* [a]	*Net Income* [a]	*Turnover Periods (years)*
			Portfolios of $20-100 Million					
AZ	4.47%	1.11%	[c]	.40%	.50%	.21%	3.36%	4.9
BA	4.80	.71	.02%	.06	.20	.43 [d]	4.09 [d]	5.3
BB	4.65	.72	.15 [d]	.08	.21	.28	3.93 [d]	3.7
BC [e]	4.13	.67	.04	.12	.05	.46 [d]	3.46 [d]	5.8
BD [e]	4.42	.80	.01	.27	.37	.15	3.62	5.3
			Portfolios of $100 Million and Over					
BF	4.69	.22	.01	.01	.15	.05	4.47	5.8
BG	4.19	.55	.03	.03	.33	.16	3.64	10.8
BH	4.32	.37	.14	.09	.00	.14	3.95	6.4
BI	4.40	.41	.15 [d]	.02	.03	.21	3.99 [d]	3.4
BJ	4.29	.66	.08	.05	.23	.30	3.63	5.5
BK	4.57	.50	.13	.09	.18	.10	4.07	7.0
BL	4.18	.44	.02	.02	.25	.15	3.74	11.9
BM	4.69	.57	.29	.03	.11	.14	4.12	6.3

[a] Excludes real estate management costs except as indicated.

[b] Represents fees, commissions, and premiums paid to correspondents and to other outside agents.

[c] Classified as branch office since company operated a branch office in 1946 and 1947.

[d] Includes real estate management costs.

[e] Excluded from the weighted averages in Table 19 of Chapter 5.

TABLE D3 — GROSS INCOME, COSTS, AND NET INCOME IN PERCENT OF URBAN MORTGAGE LOAN AND REAL ESTATE SALES CONTRACT INVESTMENT, AND PORTFOLIO TURNOVER PERIODS, 1946

(35 companies not operating branches)

Company	*Gross Income*	*Total Costs*	*Originating Fees* [a]	*Servicing Fees* [a]	*Home Office Expenses* [b]	*Net Income* [b]	*Turnover Periods (years)*
			Portfolios Under $5 Million				
A	4.47%	.95%	.15%	.33%	.47%	3.52%	4.2
B	5.01	.68	.27	.00	.41	4.33	2.5
C	4.17	1.07	.34	.35	.38	3.10	4.4
D	4.29	1.29	.54	.23	.52	3.00	4.1
E	4.57	1.30	.33	.67	.30	3.27	3.8
F	4.84	1.54	.69	.48	.37	3.30	4.2
G	5.24	1.62	.00	.00	1.62	3.62	3.9
N [c]	3.83	.85	.18	.24	.43	2.98	3.4
O [c]	4.64	.42	.00	.00	.42	4.22	11.6
P [c]	4.91	1.06	.20	.18	.68	3.85	2.9
			Portfolios of $5-20 Million				
T	4.50	.86	.12	.14	.60	3.64	2.4
U	4.57	1.23	.55	.37	.31	3.34	5.1
V	4.25	.98	.30	.30	.38	3.27	5.6
W	4.20	1.47	.27	.49	.71	2.73	4.5
X	4.44	1.15	.42	.48	.25	3.29	5.0
Y	4.15	1.10	.52	.39	.19	3.05	5.0
AD [c]	3.97	2.42	1.56	.25	.61	1.55	5.8
AE [c]	4.39	1.33	.26	.41	.66	3.06	3.2
AF [c]	4.34	1.29	.68	.02	.59	3.05	5.4
AG [c]	4.47	1.71	.57	.45	.69	2.76	3.8
AH [c]	4.37	.64	.00	.00	.64	3.73	4.4
AI [c]	4.48	1.40	.50	.36	.54	3.08	3.8

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TABLE D3 — (concluded)

Company	Gross Income	Total Costs	Originating Fees[a]	Servicing Fees[a]	Home Office Expenses[b]	Net Income[b]	Turnover Periods (years)
			Portfolios of $20-100 Million				
AK	4.72%	.93%	.17%	.26%	.50%	3.79%	6.5
AL	3.95	1.33	.49	.46	.38	2.62	4.4
AM	4.14	.62	.14	.19	.29	3.52	9.6
AN	4.46	.69	.12	.21	.36	3.77	7.8
AO	3.86	.43	.20	.14	.09	3.43	8.2
AP	3.77	1.51	.59	.44	.48	2.26	4.7
AQ	4.25	.83	.23	.36	.24	3.42	5.7
AR	3.75	.45	.16	.10	.19	3.30	10.4
AT[c]	3.89	.77	.30	.33	.14	3.12	6.5
AU[c]	4.22	1.34	.51	.50	.33	2.88	4.6
			Portfolios of $100 Million and Over				
AV	4.14	.52	.12	.25	.15	3.62	5.6
AW	4.11	.84	.21	.40	.23	3.27	5.4
AX	4.08	.67	.09	.17	.41	3.41	5.2

[a] Represents fees, commissions, and premiums paid to correspondents and to other outside agents.
[b] Excludes real estate management costs.
[c] Excluded from the weighted averages in Table 19 of Chapter 5.

TABLE D4 — GROSS INCOME, COSTS, AND NET INCOME IN PERCENT OF URBAN MORTGAGE LOAN AND REAL ESTATE SALES CONTRACT INVESTMENT, AND PORTFOLIO TURNOVER PERIODS, 1946

(15 companies operating branches)

Company	*Gross Income*	*Total Costs*	*Branch Office Expenses* [a]	*Origi-nating Fees* [b]	*Servic-ing Fees* [b]	*Home Office Expenses* [a]	*Net Income* [a]	*Turnover Periods (years)*
			Portfolios of $20-100 Million					
AZ	4.29%	1.14%	.04%	.36%	.49%	.25%	3.15%	4.6
BA	4.57	.91	.04	.26	.20	.41	3.66	5.3
BB	4.28	1.07	.39	.19	.19	.30	3.21	4.0
BC [c]	3.90	.72	.03	.24	.05	.40	3.18	6.1
BD [c]	4.21	.96	.04	.32	.35	.25	3.25	5.7
BE [c]	4.32	1.38	.32	.41	.33	.32	2.94	4.7
			Portfolios of $100 Million and Over					
BF	4.33	.30	.02	.04	.17	.07	4.03	6.0
BG	4.07	.64	.05	.06	.31	.22	3.43	11.3
BH	4.06	.37	.16	.13	.00	.08	3.69	6.6
BI	4.09	.62	.25	.11	.02	.24	3.47	5.1
BJ	4.32	.68	.08	.09	.21	.30	3.64	4.9
BK	4.41	.70	.21	.19	.18	.12	3.71	6.0
BL	4.05	.52	.04	.08	.25	.15	3.53	9.7
BM	4.53	.82	.45	.09	.10	.18	3.71	5.7
BN [c]	4.33	1.26	.09	.41	.47	.29	3.07	4.5

[a] Excludes real estate management costs.

[b] Represents fees, commissions, and premiums paid to correspondents and to other outside agents.

[c] Excluded from the weighted averages in Table 19 of Chapter 5.

TABLE D5 — GROSS INCOME, COSTS, AND NET INCOME IN PERCENT OF URBAN MORTGAGE LOAN AND REAL ESTATE SALES CONTRACT INVESTMENT, AND PORTFOLIO TURNOVER PERIODS, 1947

(28 companies not operating branches)

Company	*Gross Income*	*Total Costs*	*Originating Fees*[a]	*Servicing Fees*[a]	*Home Office Expenses*[b]	*Net Income*[b]	*Turnover Periods (years)*
			Portfolios Under $5 Million				
H[c]	4.50%	.53%	.05%	.00%	.48%	3.97%	2.0
I[c]	4.19	1.86	.00	[d]	1.86	2.33	4.0
N[c]	3.69	1.81	.98	.33	.50	1.88	3.8
O[c]	4.36	.54	.26	[d]	.28	3.82	6.4
Q[c]	3.80	.85	.20	.02	.63	2.95	3.3
R[c]	4.88	1.89	.46	.22	1.21	2.99	5.6
S[c]	4.31	2.41	1.38	.12	.93	1.90	3.7
			Portfolios of $5-20 Million				
T	4.66	.89	.24	.19	.46	3.77	2.9
U	4.56	1.10	.41	.41	.28	3.46	5.2
V	4.26	1.35	.68	.31	.36	2.91	7.1
W	4.20	2.14	.86	.49	.79	2.06	5.4
X	4.50	1.17	.44	.47	.26	3.33	5.8
Y	4.29	1.16[e]	.54	.42	.20[e]	3.13[e]	5.8
AD[c]	4.09	1.47	.69	.34	.44	2.62	7.3
AE[c]	4.47	1.40	.33	.42	.65	3.07	3.6
AJ[c]	4.33	2.00	1.47	.17	.36	2.33	5.0

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TABLE D5 — (concluded)

Company	*Gross Income*	*Total Costs*	*Originating Fees*[a]	*Servicing Fees*[a]	*Home Office Expenses*[b]	*Net Income*[b]	*Turnover Periods (years)*
			Portfolios of $20-100 Million				
AK	4.48%	1.06%	.28%	.27%	.51%	3.42%	7.3
AL	4.32	1.36	.54	.48	.34	2.96	5.1
AM	4.26	.83	.33	.21	.29	3.43	8.2
AN	4.27	.85	.24	.22	.39	3.42	8.0
AO	3.81	.45	.20	.15	.10	3.36	10.1
AP	4.29	1.33	.50	.41	.42	2.96	7.6
AQ	3.88	.97	.37	.36	.24	2.91	7.7
AR	3.68	.60	.28	.13	.19	3.08	10.4
AT[c]	4.06	.94	.44	.36	.14	3.12	7.1
			Portfolios of $100 Million and Over				
AV	3.95	.59	.21	.25	.13	3.36	6.0
AW	4.05	.90	.29	.38	.23	3.15	6.3
AX	3.99	1.06	.33	.21	.52	2.93	6.1

[a] Represents fees, commissions, and premiums paid to correspondents and to other outside agents.

[b] Excludes real estate management costs.

[c] Excluded from the weighted averages in Table 19 of Chapter 5.

[d] Less than .005 percent.

[e] Estimated on basis of home office expenses in 1945 and 1946.

TABLE D6 — GROSS INCOME, COSTS, AND NET INCOME IN PERCENT OF URBAN MORTGAGE LOAN AND REAL ESTATE SALES CONTRACT INVESTMENT, AND PORTFOLIO TURNOVER PERIODS, 1947

(15 companies operating branches)

Company	Gross Income	Total Costs	Branch Office Expenses [a]	Originating Fees [b]	Servicing Fees [b]	Home Office Expenses [a]	Net Income [a]	Turnover Periods (years)
			Portfolios of $5-20 Million					
AY [c]	5.08%	1.41%	.13%	.90%	.09%	.29%	3.67%	5.0
			Portfolios of $20-100 Million					
AZ	3.89	1.36	.03	.59	.46	.28	2.53	5.3
BA	4.46	.99	.04	.36	.23	.36	3.47	7.1
BB	4.01	1.28	.43	.36	.18	.31	2.73	5.4
			Portfolios of $100 Million and Over					
BF	4.19	.32	.02	.05	.18	.07	3.87	7.7
BG	3.89	.78	.06	.18	.30	.24	3.11	9.5
BH	4.03	.44	.17	.18	.00	.09	3.59	7.1
BI	3.81	1.09	.28	.44	.05	.32	2.72	3.9
BJ	4.12	.78	.09	.16	.20	.33	3.34	6.1
BK	4.20	.82	.22	.28	.18	.14	3.38	7.5
BL	4.12	.61	.04	.16	.26	.15	3.51	10.8
BM	4.19	1.27	.66	.31	.09	.21	2.92	7.3
BN [c]	4.19	1.23	.10	.54	.37	.22	2.96	5.5
BO [c]	3.91	1.00	.10	.39	.17	.34	2.91	6.1
BP [c]	4.12	.70	.41	.04	.01	.24	3.42	5.6

[a] Excludes real estate management costs.
[b] Represents fees, commissions, and premiums paid to correspondents and to other outside agents.
[c] Excluded from the weighted averages in Table 19 of Chapter 5.

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